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No. 806

In the Supreme Court of the United States

OCTOBER TERM, 1944

ALMA MOTOR COMPANY, PETITIONER

v.

THE TIMKEN-DETROIT AXLE COMPANY, RESPONDENT
UNITED STATES OF AMERICA, INTERVENOR

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF FOR THE UNITED STATES

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OPINIONS BELOW

The opinion of the District Court of the United States for the District of Delaware (R. 33–43) is reported in 47 F. Supp. 582. The opinion of the United States Circuit Court of Appeals for the Third Circuit (R. 112–120) is reported in 144 F. 2d 714.

JURISDICTION

The orders of the Circuit Court of Appeals were entered on August 7, 1944 (R. 111–112, 121). Pursuant to leave of court granted on September 7, 1944 (R. 122), petitioner filed a petition for rehearing out of time (R. 122). On October 2,

1944, the Circuit Court of Appeals denied the petition for rehearing "after due consideration" (R. 130), and on the same day amended its opinion (R. 129–130). The petition for a writ of certiorari was filed on January 2, 1945, and granted February 5, 1945. Jurisdiction of this Court rests upon Section 240 (a) of the Judicial Code, as amended by the Act of February 13, 1925.

QUESTION PRESENTED

Whether the Royalty Adjustment Act of October 31, 1942 (56 Stat. 1013) is valid in so far as it was made applicable to petitioner and its licensee, the Timken-Detroit Axle Company, through the issuance of Royalty Adjustment Order No. W–3 by the War Department.

STATUTES INVOLVED

The Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III, §§ 89–96), known as the Royalty Adjustment Act, is set forth in Appendix A, pp. 93–98. The Act of June 25, 1910, as amended by the Act of July 1, 1918 (36 Stat. 851, 40 Stat. 705; 35 U. S. C. § 68), is set forth in Appendix B, p. 99.

INTEREST OF THE UNITED STATES

This brief is filed by the United States as intervenor pursuant to the Act of August 24, 1937 (50 Stat. 751, 28 U. S. C. § 401), in order to support the validity of the Royalty Adjustment Act and of Royalty Adjustment Order No. W–3 issued there-

under by the War Department, it having been certified to the Attorney General by the Circuit Court of Appeals that the validity of that Act had been drawn in question in this suit. The United States takes no position as to the merits of the claims asserted by petitioner and respondent against each other, except in so far as the validity of the Royalty Adjustment Act and Order have a bearing thereon.

STATEMENT

Petitioner, Alma Motor Company, the owner of a United States patent on a transfer case (an auxiliary transmission for automotive vehicles), licensed respondent, The Timken-Detroit Axle Company, thereunder on September 12, 1939, at a stipulated royalty ranging from 50 cents to $1.50 per transfer case (R. 11, 88–90).[1]

PROCEEDINGS IN DISTRICT COURT

On January 23, 1941, respondent brought this action against petitioner under the Federal Declaratory Judgment Act[2] in the District Court of the United States for the District of Delaware to declare the patent invalid and the license agreement inapplicable to certain transfer cases

[1] The license was executed on May 16, 1938, under the patent application (R. 3–4, 88), the royalties to accrue upon the issuance of the patent thereon (R. 89). The patent, No. 2,173,044, issued on September 12, 1939 (R. 4), and the license then became effective.

[2] Judicial Code, § 274d (28 U. S. C. § 400).

manufactured by respondent (R. 2–9, 16–17). Petitioner filed an answer and a counterclaim for royalties alleged to be due from respondent under the license agreement (R. 9–13, 17–18). On September 23, 1942, the district court rendered its opinion (R. 33–43), and on December 2, 1942, entered a judgment (R. 49–51), holding that respondent as a licensee was estopped to question the patent's validity (Par. 3, R. 49); that certain of the transfer cases in question were dominated by the patent and thus subject to royalties under the license (Par. 4, R. 49–50); and that the remainder were outside the patent and hence not subject to royalties (Par. 5, R. 50).

On February 27, 1943, petitioner appealed to the court below from Paragraph 5 of the judgment (R. 51), which had held certain transfer cases to be outside the patent. Respondent did not appeal.

ROYALTY ADJUSTMENT PROCEEDINGS

The Royalty Adjustment Act became law on October 31, 1942. It provides that whenever a patented or unpatented invention is "manufactured, used [or] sold * * * for the United States," under a license stipulating for the payment of royalties "believed to be unreasonable or excessive" by the head of the Government agency concerned, he "shall give written notice of such fact to the licensor and to the licensee." It provides that within a reasonable time there-

after the head of the agency "shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production * * *." (Sec. 1.) The Act directs the licensee, after the effective date of the notice, not to "pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use [or] sale" (Sec. 1). Section 7 makes the Act applicable "to all royalties directly or indirectly charged or chargeable to the United States" which "have not been paid to the licensor prior to the effective date of the notice," as well as to royalties accruing upon all articles delivered after such effective date. By Section 4 any reduction in royalties authorized by the Act is to "inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid * * * or by way of refund if already paid to the licensee."[3]

On December 30, 1942, pursuant to Section 1 of the Royalty Adjustment Act, the War Department served written notice upon petitioner and respondent that the royalties called for by the license agreement between them and "now being

[3] The Royalty Adjustment Act was summarized by this Court in *Coffman* v. *Breeze Corporations, Inc.*, 323 U. S. 316, 319–320.

paid by the United States" are "believed to be unreasonable or excessive;" that an order fixing the rate or amount of royalty deemed fair and just would be issued within a reasonable time; that the licensor and the licensee could, upon request, "present in writing or in person any facts or circumstances which may * * * have a bearing upon the rates or amounts of royalty, if any, to be determined, fixed and specified as provided in said Act;"[4] and that until an order is issued "no royalties are to be paid on account of the manufacture, use, sale or other disposition for the United States" (R. 106–107). The notice also stated that "the United States reserves the right to assert a claim to accumulated royalties as to which the licensee, for the purpose of awaiting the outcome of pending litigation, has been withholding payment under the license agreement" (R. 107).[5] On February 8, 1943, upon petitioner's request (R. 107–108), petitioner and respondent were afforded an opportunity to present before

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[4] Section 1 of the Act provides that "the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation."

[5] An identical copy of this notice was sent to respondent (R. 60).

a War Department Examining Board "facts and circumstances" bearing upon the royalty to be fixed under the Act (R. 61–86).

On July 28, 1943, the War Department issued Royalty Adjustment Order No. W-3 (R. 93–96). That Order recited that royalties payable by respondent to petitioner under the license agreement are "directly or indirectly charged or chargeable to the War Department for or on account of the manufacture, use, sale or other disposition for the United States" of the alleged invention covered by the patent; that such royalties were "believed to be unreasonable or excessive taking into account the conditions of wartime production" (R. 93–94); and that the "fair and just" royalty under the circumstances was zero (R. 94, 96).[4] The order then directed respondent to pay no royalties whatever to petitioner under any license agreement "in respect of any supplies, equipment or materials delivered to or for the War Department," as to which royalties had not been paid prior to the notice (R. 94–95); to pay to the United States any such royalties which had accrued or were to accrue on deliveries to or for the War Department and which had not been paid to petitioner prior to the notice (R. 95); and to reduce the contract price of articles to the War Department or its contractors or subcontractors "to the

[4] This was based upon the belief of the War Department officials that the patent was invalid (R. 73).

extent necessary to give the War Department the full benefit of the [ordered] reduction in royalty rates" (R. 95).

PROCEEDINGS IN THE COURT BELOW

After Royalty Adjustment Order No. W-3 was issued, respondent on August 25, 1943, filed a motion to dismiss the appeal and remand the cause to the district court (R. 53–55). Asserting that respondent "has manufactured and sold transfer cases coming within the [license] agreement * * * only to or for the use of the War Department," the motion alleged that the court's jurisdiction had been withdrawn by the provision in the Royalty Adjustment Act depriving the licensor of any remedy against the licensee for any royalties in excess of those permitted by the Order and making the licensor's "exclusive remedy" for such royalties a suit against the United States for "fair and just compensation" (Secs. 1, 2). By leave of court (R. 96–98), the United States filed a memorandum brief as *amicus curiae* on November 15, 1943, contending that if all the transfer cases in suit had "been manufactured and sold directly or indirectly to the United States," as the affidavit supporting respondent's motion averred (R. 60), so that the royalties due thereon were "directly or indirectly charged or chargeable to the United States" (Royalty Adjustment Act, Sec. 7), then an "actual controversy" between the litigants no longer existed

under the Declaratory Judgment Act, in view of the Royalty Adjustment Act and Order issued thereunder. The brief suggested that the court below should either dismiss the appeal or suspend action thereon until an actual controversy again arises.[7]

On December 6, 1943, petitioner filed a "Petition To Review and Vacate Royalty Adjustment Order No. W–3" on the ground that the Order and the underlying Act were unconstitutional (R. 98–103). Upon certification by the court below that the constitutionality of the Act had been questioned, the United States intervened under the Act of August 24, 1937 (28 U. S. C. § 401) for the purpose of supporting the constitutionality of the Act and Order (R. 110–111, 113).

After this issue was briefed and argued, the court below rendered its opinion on August 7, 1944 (R. 112–120), holding the Act and Order valid as a "constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power" (R. 120); and concluding that the Order's direction to pay no royalties whatever to petitioner rendered the instant suit moot (R. 113). The court accordingly directed the following disposition of the case (R. 120):

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[7] The brief *amicus* is not in the record but can be made available to this Court upon request. The Government's position as *amicus* is also set forth in its motion for leave to file a brief (R. 96–97).

> Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justiciable controversy again* exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot.

The court also dismissed the "Petition To Review and Vacate Royalty Adjustment Order No. W-3" (R. 111–112) for want of jurisdiction (R. 119). On October 2, 1944, a petition for rehearing was denied (R. 130).

SUMMARY OF ARGUMENT

I

Under the Act of June 25, 1910, as amended by the Act of July 1, 1918, the United States and its contractors have been free to use any patented invention without license, and the patent owner's sole remedy is a suit in the Court of Claims for "reasonable and entire compensation." Such legislation is a valid exercise of eminent domain, involving the appropriation of a license in return for just compensation. *Crozier* v. *Krupp*, 224 U. S. 290; *Richmond Screw Anchor Co.* v. *United*

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*The word "again" was deleted by an order of October 2, 1944, amending the court's opinion (R. 129–130).

States, 275 U. S. 331. But this legislation was held not applicable where the patent owner had licensed a Government contractor or subcontractor to use the invention. The Government had to bear the royalties fixed by the license, even where, as was frequently the case, the enormous production requirements of total war had made unreasonable and excessive the rates fixed with an eye to peacetime conditions.

To remedy the discrepancy between licensed and unlicensed governmental production during wartime, and to place both upon a basis of fair compensation, the Royalty Adjustment Act in effect authorizes the taking of a new license under patented inventions, in return for fair and just compensation, whenever the consensual license already held by the Government contractor or subcontractor provides for royalties which the Government deems to be unreasonable and excessive under wartime conditions. This Act is clearly as valid as its prototype, the 1910 Act as amended. It provides suitable means—action in the Court of Claims—for the recovery of "fair and just compensation" by the patent owner in return for the license appropriated by the Government. And the use for which the property is taken is plainly "public," the Act being applicable only to Government procurement in order to "aid in the successful prosecution of the War" (Section 1).

It is no valid objection that the Act permits the appropriation of a license, not only as to uses of an invention occurring after its enactment or after the Government's notice that the royalties are excessive, but also as to prior uses for Government production, if the royalties accruing as a result thereof had not been paid to the licensor prior to the time the notice was issued. The taking of a new license from the patent owner covering all uses by Government contractors or subcontractors, past and future, frustrates performance of the pre-existing consensual license agreement through appropriation of its subject matter—the right to use the invention. This is a permissible result of the power of eminent domain when exercised over property whcih is subject to a contract, and compensation need be paid only for the property taken, not for the contract. *Omnia Co.* v. *United States*, 261 U. S. 502. For like reason, it is no objection that in a suit for compensation the United States may contest the patent's validity, a right normally denied to the licensee by principles of estoppel. The Constitution requires payment of the actual value of the taken property, and if the patent is invalid, the license appropriated is worthless.

The procedure prescribed by the Act is reasonable and proper, and was followed in this case. The Constitution does not require, and the Act does not provide for, an administrative hearing to

ascertain just compensation. The conference preceding the Order is solely for the patent owner's convenience, and to enable an amicable adjustment to be reached.

II

In view of the announced objective of the Act—"to aid in the successful prosecution of the war" (Section 1)—the Royalty Adjustment Act finds independent support in the Federal war powers. To the extent that the amount allowed under a royalty adjustment order, supplemented by the recovery of "just compensation," may produce a lesser return to the patent owner than the royalty rate prescribed in his license agreement, the Act permits a maximum "price" to be fixed for the use of inventions in governmental wartime production. The consequent reduction in the value of the consensual license is a result of, but not an objection to, price regulation. Cf. *Yakus* v. *United States*, 321 U. S. 414, and *Bowles* v. *Willingham*, 321 U. S. 503.

For like reasons, the Act may validly apply to royalties accruing prior to its passage, the result being merely the reduction in the value of the license agreement. The Act satisfies due process requirements.

III

Petitioner's contention that the Royalty Adjustment Act was not properly applied in this case

is contrary to fact. The record shows that at least some of the royalties involved in the instant suit have been "charged" or are "chargeable" by the respondent to the United States (Sec. 7 of the Act). In any event, the disposition of the instant suit by the court below was proper, and precludes any prejudice to petitioner, since if any royalties covered by paragraph 5 of the district court's judgment (from which petitioner appealed) were not "charged or chargeable" to the United States, the district court is free so to find on the remand, permitting the court below to pass upon the merits of the decision.

ARGUMENT

This brief is filed in support of the validity of the Royalty Adjustment Act and Royalty Adjustment Order No. W–3. We shall show herein that the Act, as applied in this case, is sustainable both as an exercise of the sovereign power of eminent domain and as an exercise of the war powers; that the Royalty Adjustment Order was properly issued in this case; and that the court below properly disposed of the appeal.

I

THE ROYALTY ADJUSTMENT ACT IS VALID UNDER THE FEDERAL POWER OF EMINENT DOMAIN

As the court below observed, there is little of "startling novelty" in the Royalty Adjustment Act (R. 114). Since 1910 the United States has been free to make and use, and since 1918 its

contractors have been free to make and use, any patented invention *without license* from the patent owner, leaving him the right to sue in the Court of Claims for "reasonable and entire compensation." The statutes authorizing this have been upheld by this Court as valid exercises of the Federal power of eminent domain. However, these statutes are not applicable where a patented invention is used by Government contractors or subcontractors *under license* from the patent owner. Yet in such instances the royalty rate fixed, although perhaps fair enough under the conditions prevailing when it was entered into, may become excessive and exorbitant as a result of the enormously increased production during wartime. Consequently, the Government, although required to pay only "reasonable" compensation for inventions used by its contractors *without license* from the patent owner, might have to pay far more than reasonable compensation for use of the same inventions by contractors who do have a license from the patent owner. Since efficient prosecution of the present war requires utilization by the Government of licensed as well as unlicensed contractors, and since there is no reason why the cost to the Government of using licensed inventions in the war effort should not be as reasonable as its use of unlicensed inventions, Congress abolished the discrepancy by authorizing the adjustment of royalties pursuant to the

Royalty Adjustment Act. This Act is clearly as valid as its prototypes.

A. Background and Purpose of the Royalty Adjustment Act

The Act of June 25, 1910 (36 Stat. 851), as amended by the Act of July 1, 1918 (40 Stat. 705),[9] provides that whenever a patented invention is "used or manufactured by or for the United States without license of the owner thereof * * *, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture." (35 U. S. C. § 68; see Appendix B, *infra*, p. 99). Both the Act and its amendment have been upheld by this Court as a valid exercise of the Federal power of eminent domain, a license to use the invention being appropriated by the Government in return for an obligation to pay just compensation. *Crozier* v. *Krupp*, 224 U. S. 290; *Richmond Screw Anchor Co.* v. *United States*, 275 U. S. 331.

[9] The 1910 Act was in terms applicable only when a patented invention was "used by the United States," and in *Cramp & Sons* v. *International Curtis Marine Turbine Co.*, 246 U. S. 28, this Court held that the license which the United States acquired under that Act extended only to direct use by the Government itself, not to use by Government contractors. To cover this situation, the 1918 amendment extended the 1910 Act to use or manufacture "for the United States," as well as "by" the United States. See *Richmond Screw Anchor Co.* v. *United States*, *supra*, at 342-344.

The 1910 Act as amended enables patents to be infringed in the course of governmental production or procurement, free from threat of injunction or suit for damages on account of the use of the invention by Government officers (*Crozier* v. *Krupp, supra*) or by contractors in the Government's behalf (*Richmond Screw Anchor Co.* v. *United States, supra*). Consequently, procuring agencies of the Government may direct a contractor to use any patented invention deemed essential to the war program, although neither the contractor nor the United States has any license from the owner to do so, and the United States will incur no more than a reasonable cost for such use.[10]

But since the 1910 Act as amended was in terms applicable only to unlicensed use of an invention, it was held not to be available where the patent owner had licensed the contractor to use the invention; hence, the patent owner could sue the contractor for the stipulated royalties. *Newport News Shipbuilding & Dry Dock Co.* v. *Isherwood*, 5 F. 2d 924 (C. C. A. 4), certiorari denied, 269 U. S. 592. While in such cases there was no

[10] The remedy provided by the 1910 Act as amended is "exclusive and comprehensive" (*Richmond Screw Anchor Co.* v. *United States, supra*, at 343), and the jurisdiction of the Court of Claims is exclusive. *Pierce* v. *Submarine Signal Co.*, 25 F. Supp. 862 (D. Mass.). The Court of Claims has stated that the measure of recovery against the United States is the "fair and reasonable value . . . of the property right or license appropriated by the Government." *Olsson* v. *United States*, 87 C. Cls. 642, 658.

threat of injunction (the raison d'etre of the 1910 Act as amended, see *Crozier* v. *Krupp, supra,* at 303), the virtually unprecedented production increases during World War II produced a new danger—that of excessive and highly unreasonable royalty charges to the Government. Royalties fixed during time of peace and at a rate reflecting peacetime needs were being skyrocketed into enormous sums by the thousand-fold uses of production for total war.

Recognizing these factors, a bill was introduced in Congress, at the behest of the War and Navy Departments, to place all "owners of inventions utilized by the Government in the war effort"—whether such use be licensed or unlicensed—"on an equal footing and to permit the Government to exercise its rights to utilize such inventions through the medium of any desired source of supply, without having to pay more than a fair and just compensation to the owners of such inventions."[11] During the hearings on this bill before

[11] H. Rep. No. 2602 on S. 2794 (77th Cong., 2d Sess.), p. 3. See also S. Rep. No. 1640 on S. 2794 (77th Cong., 2d Sess.), pp. 2, 5. At the hearings on the bill a representative of the Navy pointed out that it would be "an anomalous situation with the Government having the broad right to utilize," under the 1910 Act, inventions "for a reasonable compensation to the owner but unable to obtain the invention from the licensee except by paying, as a proper item of cost, the unreasonable royalty called for by the license." Hearings, House Committee on Patents, on H. R. 7620 (77th Cong., 2d Sess.), p. 40. See also *id.*, pp. 3–4, 17, 20, 32. The hearings and the House Committee Report are collected in the Appendix to petitioner's brief.

the House Committee on Patents, representatives of the War and Navy Departments testified that a number of their contractors were manufacturing war supplies under patent license agreements executed during peacetime, calling for royalties which had been rendered exorbitant and unfair by the enormous quantities called for by the war. These excessive costs were being passed on to the Government, and could not be avoided by selecting only unlicensed producers, since in many instances licensees were the sources best equipped and experienced to supply the desired quantities or types.[12]

At the conclusion of the hearings, the House Committee reported the bill favorably, noting that the 1910 Act as amended was inadequate to cope with wartime procurement problems; that in cases of unlicensed use "the United States can and does use all inventions necessary by the simple expedient of expropriation and infringement" under the 1910 Act as amended, whereas that Act does not apply if "the owner of the patent has licensed a Government contractor to use the invention"; that in such cases the "Government cannot avoid the payment of royalties fixed by such a license, even if unreasonable, because the contractor or subcontractor who uses the invention is legally liable under his license agreement to pay the

[12] Hearings, pp. 3–4, 17–19, 21–22, 32, 40, 41, 42–44 (fn. 11, *supra*).

agreed royalty"; that in many cases patent owners "have agreed willingly to reduce royalties in cases where large production due to the war effort has made the returns to the owners out of proportion to the fair and reasonable value of the inventions," but in other cases "owners have insisted upon receiving royalties which have become unreasonable and do not reflect fair and just compensation to the owners of the inventions"; and that in the latter cases "the Government is hampered in exercising its right to use the inventions upon payment of fair and just compensation because the licensees may be the only sources adequately provided with equipment and knowledge for making most expeditious and efficient use of the inventions." H. Rep., p. 4.[13]

Congress accordingly enacted the Royalty Adjustment Act on October 31, 1942, authorizing

[13] The hearings contain many examples of royalties fixed under peacetime production schedules, which have become excessive when applied to wartime procurement. In one case, royalties on a single patent used in connection with the production of a single item of airplane construction were estimated to approximate $1,750,000 under existing Army Air Forces contracts. Hearings, p. 18. In another case, the royalty on a highly specialized piece of equipment was almost 40 percent of its unit price, and totaled over 1¼ million dollars under a single Navy contract. *Id.*, pp. 43–44. A War Department officer testified that the production volume for the Signal Corps alone "has increased * * * thousands of times—and what was a reasonable royalty at 6 percent for commercial use in radio turned out to be extremely excessive when applied to such tremendous war volume." *Id.*, p. 22; see also pp. 17–19, 42–43; H. Rep., pp. 4–5; S. Rep., pp. 3–4.

the reduction of "unreasonable or excessive" royalties under inventions "manufactured, used, sold, or otherwise disposed of for the United States," to "such rates or amounts of royalties, if any, as [the head of the Government agency concerned] shall determine are fair and just, taking into account the conditions of wartime production" (Sec. 1).

The licensee in such cases may not "pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified" in the adjustment order; the licensor is deprived of "any remedy" against the licensee for any additional unpaid royalty; and the licensor's "sole and exclusive remedy, except as to the recovery of royalties fixed in said order," (Sec. 1) is suit against the United States—

> to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. (Sec. 2.)

The Act is made applicable "to all royalties directly or indirectly charged or chargeable to the United States" which "have not been paid to the licensor prior to the effective date of the notice," as well as to royalties accruing upon articles delivered "after the effective date of the notice"

(Sec. 7). Any reduction in royalties pursuant to the Act is to "inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid * * * or by way of refund if already paid to the licensee" (Sec. 4). The Act applies to the use of an invention not only by Government contractors, but also by subcontractors and others using it with the Government's consent for its purposes (Sec. 6).

This statute makes it possible for the Government, in the prosecution of the war, to use necessary inventions through *all* manufacturers and contractors, whether licensees or infringers, and upon the same reasonable basis—"fair and just compensation"—as pertains to unlicensed use of a patented invention, under the 1910 Act as amended. See H. Rep., p. 6; Hearings, p. 20 (fn. 11, *supra*). The Act thus assures the Government of reasonableness and uniformity in procurement costs in its utilization of licensed inventions, and also prevents "windfall royalty fees" to patent owners, attributable solely to wartime industrial expansion.

This objective, of course, is not peculiar to patent license agreements, but finds expression in other aspects of our wartime controls. Thus, the Renegotiation Act of April 28, 1942 (56 Stat. 244), provides a means for reducing and eliminating excessive profits under war contracts, and the Emergency Price Control Act of January 30,

1942, as amended (56 Stat. 23, 765; 50 U. S. C. App., Supp. III, §§ 901, 961 *et seq.*), imposes analogous restrictions in the field of private enterprise.

Operations under the Act during the period of some 2½ years since its passage have confirmed the Congressional determination as to the need for the measure. According to a communication from the War and Navy Departments (see Appendix C, pp. 106–107, *infra*), more than $128,000,000 has already been saved by the military services through operations under the Royalty Adjustment Act, savings which are expected to continue at the rate of about $53,000,000 a year for the duration of the war. These savings are, in the largest measure, represented by settlements under Section 3 of the Act. Only 22 royalty adjustment orders of the War and Navy Departments are outstanding to date, representing a relatively small portion of these savings, and it is only as to these orders that suits for just compensation will lie under Section 2 of the Act.

B. THE ROYALTY ADJUSTMENT ACT APPROPRIATES A NEW LICENSE IN RETURN FOR JUST COMPENSATION

The theory of the Act is the condemnation during time of war of a license under patented inventions, which is independent of the consensual license already held by the contractor or subcontractor, in return for a right to just compensation

from the Government. As an exercise of the Federal power of eminent domain, there can, we believe, be little doubt of the validity of the Act.

Eminent domain, an inherent sovereign power, enables the United States to appropriate *any* private property for use in its constitutional activities. *Kohl* v. *United States*, 91 U. S. 367, 371, 373, 374; *Albert Hanson Lumber Co., Ltd.*, v. *United States*, 261 U. S. 581, 587. Patents are a species of property and as such are subject to the power of eminent domain. *Crozier* v. *Krupp*, 224 U. S. 290, 305, 306. The peacetime exercise of eminent domain by the United States is most commonly applied to real property (Act of August 1, 1888, 40 U. S. C. §§ 257–258), but in war time the scope of requisitions inevitably broadens until, to meet crises, they may be extended to almost every aspect of the economic life of the nation.[14]

[14] During World War I, statutes authorized requisition of the following types of property: Patents—Act of March 4, 1917, 39 Stat. 1168, 1169; Food, feeds, fuel, factories, packing houses, coal mines, and other commodities—Lever Act of August 10, 1917, §§ 10, 12, 40 Stat. 276, 279; Ships, contracts relating thereto, and, for shipbuilding purposes, lands, plants, and transportation facilities—Emergency Shipping Act, 40 Stat. 182, 183, 535, 1022; Housing for workers in essential war industries and for Government workers in the District of Columbia—War Housing Act, 40 Stat. 550, 595; Railroads—Act of March 21, 1918, 40 Stat. 451; Communication control, telephone and telegraph systems—Act of July 16, 1918, 40 Stat. 904; Ores, metals, and minerals needed for the national security and defense—Fuel Control Act, 40 Stat. 1009; Use of United States vessels at specified rates of hire—

Interests in patents have been no exception.[15] Viewed as a "taking," therefore, the Royalty Adjustment Act merely represents an application of the Government's power of eminent domain to intangible property interests in inventions, as was recognized by the bill's proponents at the hearings before the Congressional Committee.[16] That Act plainly satisfies the two constitutional limitations upon the exercise of the eminent domain power which are subject to judicial inquiry—

Act of July 18, 1918, 40 Stat. 913, 915; Ordnance proving grounds—Act of April 26, 1918, 40 Stat. 537. These acts are for the most part not now in effect, having expired or been repealed.

During World War II, statutes authorized requisition of the following types of property: Any military or naval equipment, supplies, or munitions or component parts thereof needed for the defense of the United States—Requisitioning Act of October 16, 1941, as amended, 50 U. S. C. App., Supp. III, §§ 721, 636, 636a; Possession and operation of strike-bound plants—Section 9 of Selective Service and Training Act of 1940, as amended, 50 U. S. C. App., Supp. III, § 309; Real and appurtenant personal property for war purposes—Act of March 27, 1942, amending Act of July 2, 1917, 50 U. S. C. App., Supp. III, § 632.

[15] Act of March 4, 1917, 39 Stat. 1168, 1169 (patents relating to the manufacture and development of aircraft).

[16] The War Department representative stated that legislation now enables that department to "requisition or condemn every kind of species of property except patents. The War Department does not believe that inventions or their resultant patents are entitled to any greater degree of sanctity than other property." Hearings, p. 21. To the same effect is testimony of the representatives of the Department of Justice. *Id.*, p. 48; see also H. Rep., pp. 4, 6; S. Rep., pp. 2, 4 (fn. 11, *supra*).

that just compensation be provided (*Jacobs* v. *United States,* 290 U. S. 13, 16), and that the property be taken for a public use (*Shoemaker* v. *United States,* 147 U. S. 282, 298).[17]

1. *Just compensation*

Although the right to compensation for property taken under eminent domain is inherent in the Fifth Amendment and need not rest upon statutory provisions (*Jacobs* v. *United States, supra,* at 16), Section 2 of the Act makes the remedy specific by authorizing aggrieved licensors to "institute suit against the United States * * * to recover such sum, if any, as, when added to the royalties fixed and specified" in the Royalty Adjustment Order, "shall constitute fair and just compensation." This is a sufficient provision for just compensation under the Fifth Amendment. *Hurley* v. *Kincaid,* 285 U. S. 95; *Crozier* v. *Krupp,* 224 U. S. 290.

Petitioner complains that the Act violates the Fifth Amendment in that it destroys petitioner's "pre-existent legal right * * * to sue the licensee, making the licensor's sole and exclusive remedy a suit against the United States" (Pet. Br. 45). But this Court has recognized that a substituted right to sue the United States, rather

[17] The constitutional requirements of the Fifth Amendment as regards the exercise of the eminent domain power were discussed extensively during the hearings on the Act, and were deemed to be fulfilled. Hearings, pp. 20, 23; H. Rep., p. 6; see also S. Rep., p. 4 (fn. 11, *supra*).

than a government contractor, for compensation "is as comprehensive as the requirement of the Constitution." *Yearsley* v. *Ross Construction Co.*, 309 U. S. 18, 22, and cases cited therein.[18]

Petitioner further contends (Pet. Br. 47–49, 69–71) that the right given to an "aggrieved" patent owner by Section 2 of the Act, to proceed against the United States for "fair and just compensation," is not the "exact equivalent" of his former right to proceed against the licensee for the stipulated royalties, since (1) the United States may challenge the patent's validity, a right normally denied a licensee, and (2) the "fair and just compensation" recoverable under Section 2 must take "into account the conditions of wartime production," and may thus be less than the royalties called for by the license agreement. From this, petitioner concludes that Section 2 is violative of the Fifth Amendment, citing *Rich-*

[18] Petitioner argues that the Royalty Adjustment Act violates the Seventh Amendment to the Constitution because it does not provide for a jury trial on the question of validity or damages, *i. e.*, the value of the property taken (Pet. Br. 76). The limitations of the Seventh Amendment have no bearing upon suits brought against the United States, for when the sovereign consents to be sued, that consent may be so conditioned as to dispense with jury trial. See *United States* v. *Sherwood*, 312 U. S. 584, 587. Moreover, this Court has consistently ruled that due process of law does not require a trial by jury in condemnation cases. *Dohany* v. *Rogers*, 281 U. S. 362, 369; *Crane* v. *Hahlo*, 258 U. S. 142, 147; *Bauman* v. *Ross*, 167 U. S. 548, 593; *Kohl* v. *United States*, 91 U. S. 367, 376.

mond Screw Anchor Co. v. *United States,* 275 U. S. 331.

This contention misconceives the subject matter taken under the Act. Neither the preexisting license nor the royalties due thereunder are taken; a new license is instead condemned, and it is the monetary "equivalent" of this new license for which the Act authorizes, and the Constitution requires, recovery against the United States. And the *Richmond* case, so far from supporting petitioner's argument in this regard, confirms the Government's position. In that case, a suit against the United States under the 1910 Act as amended in 1918,[19] brought by the assignee of a patent on account of use of the invention by a government contractor prior to the assignment, was met with the defense that the suit was barred by Section 3477 of the Revised Statutes, forbidding the assignment of claims against the Government. This Court held that to construe R. S. 3477 as applicable would "raise a serious question as to the constitutionality of the Act of 1918," since it must be presumed "that Congress in the passage of the Act * * * intended to secure to the owner of the patent the exact equivalent of what it was taking away from him. It was taking away assignable claims against the contractor for the latter's infringement of his patent. The assignability of such

[19] The 1918 amendment extended the 1910 Act to infringement suits against Government contractors. See p. 16, *supra.*

claims was an important element in their value and a matter to be taken into account in providing for their just equivalent" (at 345). It is thus clear that the "exact equivalent" to which this Court referred was not an exact equivalent in terms of money, but an assignable cause of action against the United States in lieu of an assignable cause of action against the contractor. The Court pointed out that if "section 3477 applies and these assignments are rendered void, the effect of the Act of 1918 is to take away from the assignee and present owner not only the cause of action against the Government, but also to deprive it of the cause of action against the infringing contractor for injury by his infringement" (275 U. S. at 345).

That this Court was not concerned with an "exact equivalent" in terms of compensation is to be seen from a comparison between the rights of a patent owner or his assignee against an infringer (profits plus a maximum of treble damages, 35 U. S. C. §§ 67, 70), and his right to "reasonable and entire compensation" under the 1910 Act as amended. See *Olsson* v. *United States*, 87 C. Cls. 642. In both the *Richmond* case and in *Crozier* v. *Krupp*, 224 U. S. 290, *supra*, this Court recognized that a patent owner's right to "reasonable and entire compensation" for governmental use of his invention meets constitutional requirements. Petitioner's claim that it is constitutionally entitled to a cause of action, not merely

for the value of the property taken from it, but for the royalties fixed in the agreement between petitioner and respondent (Pet. Br. 70), would nullify the entire Act.[20] In any event, the *quantum* of recovery is a question properly to be raised in the suit against the United States for just compensation. See pp. 53–55, *infra*.

2. *Public use*

The second requirement of condemnation—that the intended use be public—is also clearly met, since it is not denied that the structures here involved have been and will continue to be used in equipment required for the public purposes of the United States—here the purpose of prosecution of the war. This Court has upheld the taking of licenses under patents not only for direct use by the Government (*Crozier* v. *Krupp*, 224 U. S. 290, 305), but also for use by its contractors (*Richmond Screw Anchor Co.* v. *United States*, 275 U. S. 331). The "public nature" of the use of commandeered property is, of course, not lessened

[20] The "exact equivalent" referred to in the *Richmond* case was the right to assign a claim for infringement; and the effect of the decision in that case was to restrict the prohibition against assignments in Rev. Stat. § 3477—which the law understandably looks upon with some disfavor as a restraint upon alienation. There is no such disfavor of the policy of restricting costs of wartime procurement to reasonable levels, and of suspending the technical rule of estoppel where that might result in charges to the Government under a worthless patent. Cf. *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173, 177.

by the circumstance that the actual user is the Government's contractor or subcontractor instead of the Government's officers and employees. Cf. *International Paper Co.* v. *United States,* 282 U. S. 399.

Whether it is necessary to take patent interests for use in the war effort is a question solely for Congress and not the courts. Cf. *North Laramie Land Co.* v. *Hoffman,* 268 U. S. 276, 284; *Bragg* v. *Weaver,* 251 U. S. 57, 58. And the Congressional findings in the Act that the powers therein provided for will "aid in the successful prosecution of the War" (Sec. 1)—in effect a declaration of the public nature of the use to be made of the interests taken—"is entitled to deference until it is shown to involve an impossibility." *Old Dominion Land Co.* v. *United States,* 269 U. S. 55, 66. No such showing has been or could be made here.

In any event, decisions of this Court upholding the 1910 Act as amended foreclose any question as to the validity of the Royalty Adjustment Act. *Crozier* v. *Krupp,* 224 U. S. 290, approved the 1910 Act, then applicable only to unlicensed use by the Government of a patent, on the ground that "in view of the public nature of the subjects with which the patents in question are concerned [improvements in guns and gun carriages] and the undoubted authority of the United States as to such subjects to exert the power of eminent domain," that Act "provides for the appropriation of a license to use the inventions, the appro-

priation being sanctioned by the means of compensation for which the statute provides" (at p. 305). The 1918 amendment, extending the 1910 Act to use or manufacture of the invention by a Government contractor, was likewise held valid. *Richmond Screw Anchor Co.* v. *United States*, 275 U. S. 331.

The Royalty Adjustment Act was intended to fit within the same pattern, and is supported by the decisions under the earlier legislation.

C. THE ROYALTY ADJUSTMENT ACT MAY VALIDLY BE APPLIED TO INVOICED ROYALTIES

Section 1 of the Royalty Adjustment Act provides that after the effective date of the notice from the Government that the royalties fixed in the license are excessive, the licensee shall not "pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified" in the Royalty Adjustment Order thereafter to be issued. And Section 7 makes the Act applicable to "all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials" which are either (1) "delivered to or for the Government from and after the effective date of the notice," or (2) "already delivered to or for the Government," if the royalties have not been "paid to the licensor prior to the effective date of the notice."

Thus, the Act would permit the appropriation of a license not only as to uses of an invention occurring after its enactment or after a notice is issued thereunder, but also as to prior uses for Government production, if the royalties accruing as a result thereof had not been paid to the licensor at the time the notice was issued. And, of course, the Act clearly applies to license agreements existing prior to its enactment, as well as to those executed thereafter. Indeed, the former class was the primary concern of Congress, for it is the royalty negotiated in time of peace and with an eye to normal production that is most apt to become exorbitant under wartime expansion. (See pp. 18–19, *supra*.) [21]

The Royalty Adjustment Order here involved directed respondent to pay no royalty whatever to petitioner under its license agreement (entered into prior to the Act) on account of the manufacture, use, sale, or other disposition of the structures for the United States, including "the balance of any royalties accrued * * * on

[21] Petitioner's intimation that the Act was not intended to apply to royalties which had accrued prior to its enactment (Pet. Br. 36, 37) is unsupported by any argument, and is contradicted by the explicit language of Section 7, as well as by the legislative materials. The Specifications of Error (Pet. for Cert., 22–24; Pet. Br. 16–19) do not challenge the construction given to the Act and Order by the court below, which applied them to all royalties here involved. See pp. 56–57, *infra*.

account of supplies, equipment or materials delivered to or for the War Department * * * and which * * * on the effective date of said notice were due and payable to Licensor but were unpaid." Such accrued royalties respondent was directed to pay to the Treasurer of the United States (R. 93–96).[22] Some of such unpaid royalties represented deliveries before the Act was passed; some related to deliveries between the Act's approval (October 31, 1942) and issuance of the notice thereunder (December 30, 1942). And, of course, the Royalty Adjustment Order was equally applicable to all uses of the invention by respondent for the War Department after the date of the notice (R. 95).

Petitioner contends that the Act and the Royalty Adjustment Order are invalid because they are "retroactive," and affect contract rights (i. e., the right to accrued royalties) which had "vested prior" to the passage of the Act (Pet. Br. 35–37). These contentions are wholly without substance.

1. *The Act may apply to uses under a preexisting license agreement*

Contrary to petitioner's assumption (Pet. Br. 48–49), its license agreement with respondent is not what is "taken" under the Royalty Adjustment Act. As we have seen (pp. 23–32, *supra*), that

[22] Respondent has not as yet paid these accrued royalties to the Treasurer of the United States. See Appendix C, pp. 101–102, *infra*.

Act authorizes the appropriation of a new license from the patent owner, independent of and separate from the consensual license already held by the Government contractor or subcontractor, and it is for the new license that the United States is bound to pay fair and just compensation.[23] The appropriated license then covers all use by Government contractors or subcontractors, past and future, for which royalties under the consensual license had not been paid to the licensor prior to the notice. The legislative materials leave no doubt that the existing license agreement was not the property taken. See H. Rep., p. 6; Hearings, pp. 48, 71 (fn. 11, *supra*).

It is true that the Royalty Adjustment Order prevents full performance of the pre-existing license agreement. But this is due to the fact that, by appropriating a new license to use the invention, the United States is in effect taking the subject matter of the license agreement between the Government contractor and the patent owner (the use of the invention for the Government), thus preventing the performance or application

[23] The opinion below seems to have fallen into slight error on this point, implying that the property taken is the existing license agreement (R. 116–117). However, the remainder of the opinion and its conclusion show the appreciation of the real impact and effect of the Act as an exercise of eminent domain covering the use of the invention for the Government (R. 114–120).

of that license agreement in respect of such use. In other words, since the use of the invention under the new license would otherwise be covered by the consensual license, the effect of the statute is temporarily and partially to suspend or frustrate performance of the private agreement, except in so far as its operation is permitted by the Royalty Adjustment Order. It is clear that frustration of a preexisting contract by condemnation of its subject matter neither violates any constitutional guarantee nor constitutes a "taking" of the frustrated contract or of the "money" due thereunder (cf. Brief Am. Cur. 33–43).

In *Omnia Co.* v. *United States*, 261 U. S. 502, the United States requisitioned steel plate which the Allegheny Steel Company had contracted to sell and deliver to Omnia. Claiming that its contract with Allegheny had been taken, Omnia sued the United States for just compensation. This Court denied recovery, ruling that the United States had "not appropriated but ended" Omnia's contract with Allegheny, and that "Frustration and appropriation are essentially different things" (at p. 513).[24] See also *Mullen Benevolent Corp.*

[24] The doctrine of the *Omnia* case was recently cited with approval in *United States ex rel. T. V. A.* v. *Powelson*, 319 U. S. 266, 282. See also *Mullen Benevolent Corp.* v. *United States*, 290 U. S. 89, 95. These citations would seem to dispel any notion that the *Omnia* decision had been weakened by *Brooks-Scanlon Corporation* v. *United States*,

v. *United States*, 290 U. S. 89, 94–95. Indeed, "there can be no right to restrain by contract the power of eminent domain" and "any contract by which it was sought to accomplish that result would be inefficacious for want of power." *Pennsylvania Hospital* v. *Philadelphia*, 245 U. S. 20, 23. Hence, the preexisting license agreement between petitioner and respondent cannot preclude the application of the Federal power of eminent domain to uses of the invention which were covered by that license, whether such use occurred before or after the Act.

2. *The Act may apply to uses occurring prior to its passage*

The same principles sustain the application of the Act to uses of a licensed invention for the Government prior to the Act. Petitioner contends that as a result of such uses, the stipulated royalties under the license agreement "accrued,"

265 U. S. 106 (upon which the *amicus curiae* brief in this case heavily relies, Brief Am. Cur. 16–18). In the *Brooks-Scanlon* case, the Government not only ordered the physical taking of the vessel, but directed the shipbuilder to "proceed in conformity with the requirements" of Brooks-Scanlon's contract (265 U. S. at 117), and this Court found that by such an order the Government "put itself in the shoes of [Brooks-Scanlon] and took from [it] and appropriated to the use of the United States all the rights and advantages that an assignee of the contract would have had" (at 120). Here there was no substitution under the license agreement. See Sec. 2, authorizing the defense of invalidity (which the licensee is normally estopped to assert) in a suit for just compensation.

and the licensee was obligated to pay them to the licensor. This is denied by respondent, but assuming such an obligation existed, performance was frustrated by the Government's appropriation of an independent license covering the same uses of the invention as underlay the accrued royalties. Thus, in lieu of his right to agreed royalties for the uses in question, the licensor is left with a claim for just compensation against the Government for the subject matter taken—*i. e.*, the independent license covering uses of the invention prior to the Act.

The right thus to affect "accrued" contract rights is confirmed by the decisions cited above. The value of a contract changes with the extent of performance thereunder, and the "accrual" of rights under a contract is nothing more than the increase in the value of the performance which one party is entitled to call for. Such rights, no less than contract rights to accrue in the future, must yield to the sovereign power of eminent domain. They can be "frustrated" by the appropriation of the subject matter of the contract, which gave the contract its value, as fully as rights still to arise thereunder. Cf. *Omnia Co.* v. *United States*, 261 U. S. 502, *supra*; *Morrisdale Coal Co.* v. *United States*, 259 U. S. 188, 190; *Mullen Benevolent Corp.* v. *United States*, 290 U. S. 89, 94.

Apart from the doctrine of frustration, an independent ground sustains the Act as applied to uses of the invention prior to its passage. Con-

gress created the patent monopoly, and has plenary power to legislate with respect thereto. *Pennock* v. *Dialogue*, 2 Pet. 1; *Seymore* v. *Osborne*, 11 Wall. 516. Because the private privilege derived from the patent grant is at the expense of the public domain, that privilege must yield where necessary to "the public interest which is dominant in the patent system." *Mercoid* v. *Mid-Continent Investment Company*, 320 U. S. 661, 665. And the patent grant, like other "private rights vested by the government" is "by necessary implication, held in subordination to [the power of eminent domain], and must yield in every instance to its proper exercise." Cf. *West River Bridge Company* v. *Dix*, 6 How. 507, 532. Moreover, contracts which "deal with a subject matter which lies within the control of the Congress * * * have a congenital infirmity" (*Norman* v. *B. & O. R. Co.*, 294 U. S. 240, 307–308), and individuals must assume that fields subject to regulation will be regulated at some time. See *United States* v. *Hudson*, 299 U. S. 498, 500; *Veix* v. *Sixth Ward Bldg. & Loan Ass'n*, 310 U. S. 32, 38.

Patent owners had notice, 32 years before the Act here in question, of the Congressional policy to pay just compensation, instead of an infringer's damages or profits, for use of patented inventions. Act of June 25, 1910, 36 Stat. 851. And 24 years before the instant Act, that policy was extended to use by a Government contractor. Act of July 1, 1918, 40 Stat. 705. Patent owners, faced with

three decades of the use of the power of eminent domain to impose a fair and just limit upon the Government's liability for use of a patented invention, were not entitled to assume that Congress would continue to allow agreements between private parties to fix exorbitant and excessive charges to the Government for wartime use of the invention. Patent owners were not entitled to assume that by virtue of profitable private agreements, they might levy a far greater tribute upon wartime production, when the means utilized was a licensed contractor, than they could exact if the same production was undertaken through an unlicensed contractor.

In these circumstances, the determination by Congress, in the Royalty Adjustment Act, that there should be equality of cost between licensed and unlicensed use by a Government contractor or subcontractor, and that equality should begin with any uses of the invention as to which royalties had not already been paid to the licensor at the time the Government announced their excessiveness, cannot be denounced as unreasonable or arbitrary. The license agreement between petitioner and respondent "must necessarily be regarded as having been made subject to the possibility that, at some future time, Congress might so exert its whole constitutional power * * * as to render that agreement unenforceable or to impair its value." *Louisville & Nashville R. Co.* v. *Mottley,* 219 U. S. 467, 482.

The power of Congress to invoke the power of eminent domain in order to keep the cost of governmental use of patented inventions in wartime down to reasonable charges, must surely be as free as the interstate commerce power from the fetters of "existing arrangements" and the "prophetic discernment" of private individuals. See *Sproles* v. *Binford*, 286 U. S. 374, 390–391.[25]

[25] It is no objection that the Act may be applied to uses of inventions by Government contractors prior to December 7, 1941, the date on which the United States entered the present war. In the instant case, the royalties involved date back to September 1939 (see R. 12, 89). While petitioner makes no formal objection on this ground, the Act's application to such uses is clearly correct. The Congressional determination that a license should be appropriated as to such uses is not arbitrary, nor does it "involve an impossibility." Cf. *Old Dominion Land Co.* v. *United States*, 269 U. S. 55, 66. The "conditions of wartime production" referred to in Sections 1 and 2 of the Act, which caused preexisting royalty rates to become exorbitant, did not arise overnight on December 7, 1941. They were present in September 1940 when Congress passed the Selective Training and Service Act (Act of September 16, 1940, 54 Stat. 885, 50 U. S. C. App. §§ 301–318), and in May 1941 when the President proclaimed an unlimited national emergency (Proc. No. 2487, 6 F. R. 2617, 50 U. S. C. App., Supp. III, pp. 744–745). The impact of the impending world conflict was indeed beginning to be felt in February 1936, when "in the interest of national defense" Congress prohibited the export of tin-plate scrap except upon license issued by the President (Act of February 15, 1936, 49 Stat. 1140, 50 U. S. C. §§ 86–88); and in June 1938, when Congress authorized the Secretary of War to place educational orders for munitions of war "needed in the military service" in order "to familiarize commercial and manufacturing establishments with the manufacture of such munitions" (Act of June 16, 1938, 52 Stat. 707, 50 U. S. C. §§ 91–95).

3. *Uses between the enactment of the Act and the issuance of a notice thereunder*

The principles discussed above sustain the application of the Act, as a valid exercise of the Federal power of eminent domain, to all uses of a patented invention, before or after the Act was passed. However, in respect of uses occurring after the Act but before a notice issued thereunder, an additional ground supports the Act.

The Act may be deemed an appropriation of an inchoate license under all patented inventions licensed to Government contractors or subcontractors at a royalty. This inchoate license could be asserted by the Government at any time that it determined the stipulated royalty was unreasonable, and when so asserted, the license would cover all use occurring after the Act was passed. Until so asserted, the parties could proceed under their prior license.

To this extent, the Royalty Adjustment Act operates, in the field of licensed use, as the 1910 Act operates in the field of unlicensed use. Under the 1910 Act, as amended, the Government may use or direct its contractors to use patented inventions without notice to the patent owner. There is no formal proceeding to condemn or appropriate a license; the "taking" consists of the actual use of the invention by the Government, its contractors or subcontractors. See *Olsson* v. *United*

States, 87 C. Cls. 642, 657. The patent owner, after such governmental use, may sue the United States for reasonable compensation. Thus, under the 1910 Act as amended, it could be said that the Government and its contractors have an inchoate license to use any invention for a reasonable royalty, such license to become effective upon actual use of the invention.

The same is true of the Royalty Adjustment Act, which, as we have shown, was designed to supplement the 1910 Act by providing for procurement at a reasonable cost where the Government contractor or subcontractor was under a license, as well as where he was unlicensed. Section 1 of the Act constructively notifies all patent owners that thenceforth all licensed use would be on the same basis as unlicensed use, and that the Government may, in appropriate instances, declare that a Government contractor or subcontractor is paying excessive royalties under his license agreement and, under the independent license, may require that payment be limited to fair and just compensation. Until the inchoate license was made operative through the issuance of a notice and order however, Government contractors and subcontractors were permitted, for convenience, to proceed under their own license, and could continue to pay royalties thereunder.

4. *If petitioner's vested rights to accrued royalties have been "taken," an adequate remedy is available against the United States*

Even if petitioner were correct in asserting the inviolability of its right to royalties accruing prior to the enactment of the Act, that would not warrant holding the statute unconstitutional. Section 2 of the Act affords petitioner a means by which it may recover "fair and just compensation" for the use of its invention for the United States, and if, for constitutional or any other reason, the value of such use prior to the Act is more than the figure stipulated in the Royalty Adjustment Order, then petitioner, as a person "aggrieved by" the Order (Sec. 2), has an adequate remedy in the courts to recover the proper compensation for such accrued royalties, even at the royalty rate fixed in the license, if that is proper. Such a right is sufficient to meet the requirements of the Fifth Amendment. *Hurley* v. *Kincaid*, 285 U. S. 95; *Crozier* v. *Krupp*, 224 U. S. 290. Congress having provided an adequate remedy to persons "aggrieved" by the operation of the Act, there can be no claim that it divests property interests without just compensation.

D. IT IS NO OBJECTION THAT THE UNITED STATES IS NOT ESTOPPED TO SET UP INVALIDITY IN A SUIT FOR COMPENSATION

Petitioner contends that the Royalty Adjustment Act deprives it of property without due process of law because it makes available to the

United States when sued for just compensation, "all defenses, general or special, that might be pleaded by a defendant in an action for infringement" (Sec. 2),[26] thus giving the United States a right which was denied to the licensee at the time of the passage of the Act—the right to challenge the validity of the patent (Pet. Br. 41–48). The unsoundness of this contention is demonstrable on several grounds:

(1) Petitioner's contention as to estoppel is predicated upon the erroneous assumption that the Act substitutes the United States for the licensee under the license agreement. As the sponsors of the Act made clear (Hearings, fn. 11, *supra*, pp. 48, 55, 71), when the United States issues a Royalty Adjustment Order, it is not substituted for the licensee, but takes an independent license pursuant to its powers of eminent domain. The new license in effect provides that the royalty rate is to be the fair and just value of the use of the invention, and that the invalidity of the patent may be asserted as a defense in a suit for compensation (Secs. 1, 2). Consequently, the plea of estoppel, formerly available to the licensor when suing for royalties under the consensual license,

[26] This provision is taken from the 1910 Act as amended (35 U. S. C. § 68). At the hearings, it was pointed out that the "1910 Act as amended recognizes the right of the Government to show that the patent upon which suit is brought for compensation is worthless for one reason or another." Hearings, p. 48 (fn. 11, *supra*).

becomes inapplicable when the licensor is suing for compensation under the appropriated license. This was the clear intention of Congress in passing the Act. The sponsors of the Act pointed out that to deny the Government the right to assert the invalidity of the patent when sued for just compensation, "would not only be inconsistent with this essential purpose underlying this bill, but would run counter to the tradition in all condemnation and eminent domain cases." (Hearings, fn. 11, *supra*, p. 48.)[27]

The estoppel between licensee and licensor is merely an element in the value of their negotiated license, not dissimilar in this respect from the stipulated royalty—an agreement between the two parties as to the value of the commercial use

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[27] At the hearings, in response to an assertion by Mr. Fenning, testifying for the American Patent Law Association, that the Government would become substituted for licensees under the Act, the following colloquy took place between Mr. Fenning and Mr. Lanham, the Acting Chairman of the House Committee on Patents:

"Mr. LANHAM. Well, if [the Government] were subjected to the situation of the licensee with all of the limitations upon the licensee under existing law, why, this whole act would be inoperative, would it not?

"Mr. FENNING. Oh, no; not at all. The question to be determined, so far as this act is concerned, is how much royalty.

"Mr. LANHAM. But, that is determined in the original contract between the owner of the patent and the licensee and the licensee cannot dispute that, and if the Government has no further authority than the licensee, the Government in court could not dispute it or alter it." (Hearings, p. 55.)

of the patent.[28] But this cannot bind the sovereign who condemns the subject matter of the contract. In determining compensation payable by the Government for a taking, the courts will consider the *actual* value of the property at the time of the taking (*Russell Co.* v. *United States*, 261 U. S. 514, 523); and the price for the property fixed in a contract between the property owner and private purchaser, while it "may be evidence of the value of what is taken," "is not the criterion of value," nor conclusive upon the courts. *United States* v. *General Motors Corporation*, 323 U. S. 373, 383; see also *Federal Eminent Domain* (Lands Division, Dept. of Justice, 1940), pp. 806–807. Petitioner is entitled to fair and just compensation for the use of the invention in behalf of the Government. If petitioner's patent is invalid, the value of such use could properly be fixed only at zero, as if it were any other kind of worthless article. The opportunity afforded by the Act to have a court determine the fair value of the property taken, and to obtain compensation accordingly, meets the requirements of the Fifth Amendment. *Hurley* v. *Kincaid; Crozier* v. *Krupp, supra*, p. 44.

(2) As part of its announced policy to restrict to reasonable levels the charges for patented inventions used in war production, Congress de-

[28] Respondent alleged in the district court that it entered into the instant license agreement with petitioner to avoid "the futility of expending large sums of money in contesting and litigating" a patent of "doubtful validity" (R. 3).

termined, in the Royalty Adjustment Act, that the United States should not be charged unreasonable royalties for an invalid patent, whether the use of the invention occurred before or after the Act was passed; and that the cost to the Government should be the reasonable value of the use of the invention in both instances. The public policy behind this objective is clearly sufficiently compelling to warrant abolishing *pro tanto* the technical plea of estoppel where that would protect an invalid patent and give it a wholly artificial value. Precedents for this conclusion are at hand. In *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173, a patent licensee who was sued for royalties asserted that a price-fixing clause in the license agreement violated the antitrust laws because the patent was invalid. This Court upheld that defense and rejected the plea that the licensee was estopped to question the validity of the patent. Mr. Chief Justice Stone said (at pp. 176–177):

> The federal courts have been consistent in holding that local rules of estoppel will not be permitted to thwart the purpose of statutes of the United States. * * * *
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> * * * * * *
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> Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act

which in the public interest precludes the enforcement of such unlawful agreements. Cf. *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488, 492–93.

The application of the rule of the *Sola* case here is clear. A patent is affected with the public interest, the grant creating a privilege at the expense of the public domain; and such a privilege may not thwart the public interest as defined by Congress. *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661. A suit involving the patent privilege "does not concern only private parties," but raises "issues of great moment to the public." *Hazel-Atlas Glass Co.* v. *Hartford-Empire Co.*, 322 U. S. 238, 246. Here, the public policy enunciated in the Royalty Adjustment Act is that inventions used in connection with the war effort should involve only a reasonable charge to the United States. Clearly, the purpose of the Royalty Adjustment Act is not to be thwarted by hiding an invalid patent behind a plea of estoppel, "which would fasten upon the public" as well as the Government the financial burden of tribute under a worthless patent.

(3) To deny the United States the right to challenge the validity of a patent in a suit against it for fair and just compensation would open the door to frauds against the Government. Persons owning a patent of doubtful validity could induce Government contractors, or those likely to receive Government contracts, to accept licenses

calling for royalties, and thereby save the validity of the patent from the judicial scrutiny to which it would otherwise be subject in a suit for unlicensed use under contract (35 U. S. C. § 68). Obviously, there is no reason why "the Government, which has never consented to the terms of that license and had nothing to do with fixing the terms," should be bound by any of its legal incidents. Hearings (fn. 11, *supra*), p. 48.

E. THE PROCEDURE PROVIDED FOR BY THE ACT AND FOLLOWED HERE IS REASONABLE

Petitioner contends that the notice and "hearing" at which it was given an opportunity, on February 8, 1943, to present to the War Department any facts or circumstances bearing on the rates of royalties to be fixed by the Government, were inadequate, improper, and violative of the Fifth Amendment (Pet. Br. 49–59). Petitioner further complains that the Royalty Adjustment Order issued by the War Department was based upon a "determination" that the patent was invalid, and that such a "holding of invalidity" is objectionable because not based upon any evidence before the administrative board of the War Department, nor upon any findings made by the Board (Pet. Br. 59–65, 76). These contentions are wholly without merit because (1) due process of law does not require an administrative hearing in eminent domain proceedings; (2) the order was merely a preliminary administrative fixing of

value, not binding upon the courts; and, in any event, (3) the procedure prescribed by the Act and followed in this case was reasonable and proper.

1. *A formal administrative proceeding was not intended nor constitutionally required*

Under Section 1 of the Act, if the head of an executive department believes that a royalty rate paid by a contractor and charged or chargeable to the Government is "unreasonable or excessive," he must give notice thereof to the patent owner and the licensee, and within a reasonable time thereafter must issue an order fixing the rate and amount of royalty, if any, determined to be "fair and just, taking into account the conditions of wartime production." However, the patent owner or licensee, upon request, is entitled to an opportunity to "present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any," to be fixed in the order.

It is plain that Congress did not intend that the presentation of such material to the Federal agency should constitute a formal hearing such as is held by a regulatory body, but rather that it should be a means of aiding the department head to determine what royalties should voluntarily be paid to the patent owner, with a view to amicable adjustment out of court. The provision for the

presentation of facts and circumstances was first proposed by the House Committee on Patents, and its report explains the underlying purpose:

> The adoption of this amendment will afford the licensor or licensee or other interested party a reasonable opportunity to discuss with the department or agency of the Government concerned the amounts and rates of royalties before the issuance of any order fixing such amounts or rates, without danger of delaying or interfering with the war effort, which a formal hearing might entail. (H. Rep. (fn. 11, *supra*), p. 2.)

That such a procedure was intended to be a conference which might preclude litigation is substantiated by Section 3 of the Act, which allows the department or agency concerned to settle with the patent owner whether or not a royalty adjustment order has been issued.[29] Both the statutory language and its legislative history dispel any notion that formal evidence was to be received by the department, or that the conference was to follow the procedure of a formal hearing, or that findings were to be made.

Such an informal conference raises no constitutional question. The Constitution does not require that an owner whose property has been taken under eminent domain be given a hearing before the administrative board which initially determines the amount of compensation to be

[29] See also, H. Rep., p. 5; Hearings, p. 19 (fn. 11, *supra*).

paid, so long as he has a right to judicial review of the administrative determination, with a full hearing in the court.[30] Since the Royalty Adjustment Act permits *de novo* trial in the district courts or the Court of Claims to determine just compensation, regardless of the outcome of the conference, there can be no constitutional objection to the procedure.

2. *The Royalty Adjustment Order is proper*

An order issued under the Act is merely a means of fixing a preliminary value upon the license interest taken by the Government, and where the patent is believed to possess some value, the order is a means of making a payment "on account" of just compensation, or of settling with the licensor for his claim to compensation, if he is satisfied with the royalties fixed in the order. Such "payment on account," if any is provided for, is to be made in the form of royalties paid by the licensee to the licensor and then charged to the United States (Sec. 1). If the licensor thinks he is entitled to more, he can obtain a judicial determination *de novo* of what is "just compensation" for the uses made of his patent, and recover an appropriate judgment (Sec. 2). The order is thus merely an expression of the opinion of a Government official as to the fair value of

[30] *Bragg* v. *Weaver*, 251 U. S. 57, 59; *North Laramie Land Co.* v. *Hoffman*, 268 U. S. 276, 285–286; *Crozier* v. *Krupp*, 224 U. S. 290, 306.

the license interest appropriated by the Government, without any binding effect upon the courts.

Indeed, provision for an order and advance payment could validly have been omitted from the Act. The 1910 Act as amended did not contain such a provision, but was nevertheless held valid because "adequate means" were "provided for a reasonably just and prompt ascertainment and payment of the compensation * * *," *Crozier* v. *Krupp*, 224 U. S., at 306; see *Hurley* v. *Kincaid*, 285 U. S. 95, 104.[31] This has also been done in Section 2 of the Royalty Adjustment Act.

The administrative officer charged with the function of fixing the royalties which the Government permits to be paid under the Act is, of course, entitled to take into account any factors bearing upon the value of the use of the invention. One such factor is the probable validity of the patent; if the officer deems the

[31] In the words of the court below (R. 119):
"the result [of the opportunity to present relevant data to the federal agency] does not bind the patent owner. By the express terms of the statute he is entitled to sue for what he believes himself to be entitled and the conclusions of the administrative officer are in no way binding upon him or the court. Provision for such a hearing is not constitutionally required; the 1910 Act, as amended, did not include it. The insertion into the law of a provision for a conference which conceivably could result in mutual satisfaction to Government and patent owner can hardly be unconstitutional when no such conference is necessary as a matter of constitutional right and when its results are not binding upon the patent owner if he later seeks compensation through court action."

patent to be of dubious validity, he may properly prescribe a zero royalty rate. But this has no effect upon the patent's validity. In a suit for just compensation, if the Government asserts invalidity as its defense, the issue must be heard and decided by the court *de novo*, and the royalty adjustment order will be of no relevance.[32]

It is, of course, clear that the validity of the patent was regarded by the sponsors of the Act as a proper subject of inquiry in determining the amount of royalty to be fixed in a royalty adjustment order. Colonel Vanderwerker, testifying for the War Department at the hearings before the House Committee, stated:

> * * * there might be determination that the Government would feel that it would not pay any royalties. Validity might be one. There might be other reasons. Title, ownership, scope of the claims; validity—any number of things which would all be taken into consideration at the time the determination was made.
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> * * * * * *
>
> I should hesitate, Congressman, very much before I would advise the Secretary of War to pay a royalty under a patent

[32] The procedure adopted in the Royalty Adjustment Act—a preliminary administrative determination of just compensation, with a right to a subsequent judicial trial *de novo*—is not novel. See, for example, the Act of October 16, 1941, as amended, 50 U. S. C. App., Supp. III, §§ 721, 636, 636a, which permits the President, upon making certain findings, to requisition military materials for the United States.

> that I knew was invalid or had reason to believe was invalid. After all the Secretary is charged with the responsibility of the expenditure of public funds. I would hesitate very decidedly to advise him to pay if I thought that the patent was invalid. (Hearings, fn. 11, *supra*, p. 71.)

Petitioner erroneously asserts that the Royalty Adjustment Order in this case will "permit the private enrichment" of respondent at petitioner's expense (Pet. Br. 34). This contention is apparently based upon the mistaken notion that respondent may decline to pay to petitioner royalties already collected from the United States and may retain those royalties as against the Government. The Royalty Adjustment Order directed respondent to pay no royalty whatever to petitioner under the license agreement on account of manufacture, use or sale for the United States, including "the balance of any royalties, accrued * * * on account of supplies, equipment or materials delivered to or for the War Department * * * and which * * * on the effective date of [the notice from the War Department declaring such royalties excessive] were due and payable to Licensor but were unpaid." As to accrued royalties which had already been passed on to the Government, the Order directed respondent to return such amount to the Treasurer of the United States; as to royalties which had not yet accrued or been passed on to the

Government, respondent was directed to reduce the contract price to the War Department or its contractors or subcontractors "to the extent necessary to give the War Department the full benefit of the [ordered] reduction in royalty rates" (R. 93–96). Thus, as required by the Act (Secs. 4 and 7), all royalties on Government production not paid to petitioner prior to the notice will be eliminated as a charge to the Government, by way of refund if already collected, otherwise by way of a reduction in the contract price. To the extent that royalties which are not chargeable to the United States have accrued or may hereafter accrue, Royalty Adjustment Order No. W–3 does not and was not intended to apply, and would not preclude a suit by petitioner against respondent to recover such royalties. See pp. 86–87, *infra*.

3. *The notice and "hearing" were in all respects proper*

In any event, there is no merit in petitioner's complaint that the "hearing" did not correspond to the notice, or that the validity of the patent was improperly taken into account in determining the royalty rate to be allowed administratively (Pet. Br. 49–60, 64, 76). On December 30, 1942, Major General L. H. Campbell, Jr., Chief of Ordnance, wrote petitioner in behalf of the War Department that—

> Pursuant to the Act of October 31, 1942 * * *, notice is hereby given that the royalties now being paid by the United States under [petitioner's patent] are believed to be unreasonable or excessive. It is understood that these royalties are being paid by virtue of an agreement between [respondent as licensee and petitioner as licensor.]
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> * * * * * *
>
> Under the Act the licensee or the licensor * * * may * * * present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalty, if any, to be determined, fixed and specified as provided in said Act. (R. 106.)

Petitioner's President, William Schenck, replied on January 8, 1943, acknowledging receipt of the notice, and stating:

> We * * * feel certain that a full discussion of the facts will enable you to alter your belief. We accordingly request a hearing as soon as possible wherein the facts known to us may be presented to you. (R. 107–108.)

Subsequently, on January 13, 1943, Lt. Col. Charles H. Herrstrom of the Ordnance Department advised petitioner that the parties in interest would be afforded an opportunity to make their presentation on February 8, 1943 (R. 108–109). And at that time, petitioner's representatives recognized that the validity of the patent

was directly related to the reasonableness of the royalties and, accordingly, a matter properly to be considered by the Board fixing the royalty rates. During the proceedings, the following colloquy occurred (R. 72–73):

> Mr. SCHENK [Petitioner's President]. The main question is whether or not these royalties are excessive.
>
> Major COCKRELL [Presiding Officer of Board]. Any royalty is excessive if the patent is invalid.
>
> Mr. FARLEY [Petitioner's Counsel]. I think I would agree to that. * * *

This leaves no doubt that the War Department did not surprise petitioner as to the nature and issues of the proceedings, and that petitioner received all the privileges intended by the Act.

II

THE ROYALTY ADJUSTMENT ACT IS ALSO SUSTAINABLE AS A REGULATION UNDER THE FEDERAL WAR POWERS

As emergency legislation of a temporary nature, enacted to meet the needs of a great crisis, the Royalty Adjustment Act finds independent support in the Federal war powers. Congress has the constitutional power to "wage war successfully" by "the harnessing of the entire energies of the people in a supreme cooperative effort to preserve the nation." *Home Building & Loan Association* v. *Blaisdell*, 290 U. S. 398, 426. The

war powers are "not limited to victories in the field;" they include the ability to "remedy the evils which have arisen from [the war's] rise and progress." *Stewart* v. *Kahn*, 11 Wall. 493, 507; *Hamilton* v. *Kentucky Distilleries Co.*, 251 U. S. 146, 161.

The relationship of the Act to the war powers of Congress is clear from its face. The announced objective of the Act is "to aid in the successful prosecution of the War" (Sec. 1); the "fair and just" royalty preliminarily fixed by the head of the department concerned is to take "into account the conditions of wartime production" (Sec. 1); and the Act is applicable only "during the continuance of the present war and for six months after the termination thereof" (Sec. 7). Moreover, it applies only to uses of patented inventions in connection with "supplies, equipment, or materials * * * delivered to or for the Government." The House Committee reported that passage of the Royalty Adjustment Act was "necessary and desirable for the efficient prosecution of the war." H. Rep. (fn. 11, *supra*), p. 6.

The Act exemplifies the Congressional determination that the war effort will be served by a statute designed to (1) prevent excessive charges to the Government for war production, (2) place all uses of patented inventions, licensed and unlicensed, on the same basis of reasonable compensation, and (3) prevent windfalls to patent own-

ers attributable solely to the tremendous increases in war production. Since it is plainly impossible to characterize this determination as arbitrary or without any rational basis, or to condemn the means invoked as inappropriate to the desired ends, settled principles support the Act as a war-time regulation (*Block* v. *Hirsh*, 256 U. S. 135), or as emergency legislation designed to meet peculiar economic conditions (*Home Building & Loan Association* v. *Blaisdell*, 290 U. S. 398).

A. THE ROYALTY ADJUSTMENT ACT IS A VALID PRICE-FIXING MEASURE

The Act and Order may conceivably reduce the return to petitioner under its license agreement. Instead of the right to the stipulated royalties from his licensee on account of use of the invention for the Government, the licensor is limited to the recovery of "fair and just compensation" from the United States. There is, of course, nothing to preclude allowance by the Court of Claims or the district court of the full royalty stipulated in the license, if the court finds the patent valid and determines that the fair value of the use of the invention, "taking into account the conditions of wartime production," is the royalty rate agreed to by licensor and licensee. But to the extent that recovery of "just compensation" produces a lesser return to the patent owner than the royalty rate stipulated in the license, the Royalty Adjustment Order fixes a maximum "price" for the use of the invention in govern-

ment production. The consequent reduction in the value of the licensor's patent is a result of, but not an objection to, the price regulation.

In *Yakus* v. *United States*, 321 U. S. 414, and *Bowles* v. *Willingham*, 321 U. S. 503, this Court upheld certain provisions of the Emergency Price Control Act of 1942 (56 Stat. 23, 50 U. S. C. App., Supp. III, § 901), together with regulations which the Price Administrator had promulgated thereunder, establishing maximum prices for meat and maximum rent for dwellings. In the *Willingham* case, this Court said (321 U. S. at 517–519):

> * * * price control, the same as other forms of regulation, may reduce the value of the property regulated. But, as we pointed out in the *Hope Natural Gas Co.* case (320 U. S. p. 601), that does not mean that the regulation is unconstitutional. * * *
>
> * * * We need not determine what constitutional limits there are to price-fixing legislation. Congress was dealing here with conditions created by activities resulting from a great war effort. *Yakus* v. *United States, supra.* A nation which can demand the lives of its men and women in the waging of that war is under no constitutional necessity of providing a system of price control on the domestic front which will assure each landlord a "fair return" on his property,

This reasoning is applicable here. Congress may validly regulate, at a generally reasonable level, the price of food and shelter in order to prevent profiteering and inflation resulting from a shortage of housing facilities or commodities—"conditions created by activities resulting from a great war effort." It seems clear that Congress may likewise regulate, at a reasonable level, the price (royalties) payable by its war contractors for the use of patented inventions and chargeable to the public treasury. No less than the price fixing under the Emergency Price Control Act, the Royalty Adjustment Act would prevent profiteering and the inflationary effect of excessive or exorbitant procurement costs. Such control over royalties chargeable to the Government in time of war was explicity invoked by Congress "to aid in the successful prosecution of the War" (Sec. 1).

The objectives of these statutes are indeed strikingly similar. One purpose of the Emergency Price Control Act is "to assure that defense appropriations are not dissipated by excessive prices" (Sec. 1 (a)),[23] and the Royalty Adjustment Act is likewise aimed at preventing excessive charges to the Government resulting from

[23] It has been administratively held that maximum prices apply to Government contracts and that price orders override earlier contract prices. Pike and Fischer, O. P. A. Service (Price Control, Rationing, Rent), p. 36: 1906.

wartime conditions and likely to impair the effective and successful prosecution of the war.[34]

1. *The Act may properly apply to existing licenses*

It is well settled that a regulation enacted under one of the powers granted to the Federal Government is not objectionable merely because it sets aside or reduces the value of a prior private contract. Numerous examples of this principle are available.

A private contract for an attorney's fee of 50 per cent of recovery on a claim against the Government cannot be enforced in the face of a subsequent statute limiting the recovery to 20 per cent. *Capital Trust Co.* v. *Calhoun*, 250 U. S. 208; see also, *Calhoun* v. *Massie*, 253 U. S. 170. Private agreements to pay debts in gold cannot preclude Congress from subsequently for-

[34] It is, of course, no objection that the regulation of royalties under the Royalty Adjustment Act is limited solely to manufacture or use for the Government. Under the doctrine of the *Yakus* and *Willingham* decisions, Congress could validly have authorized the administrative reduction of royalties to a reasonable level, whether they were payable by a Government contractor or by any other licensee. A patent owner can hardly complain that Congress has exercised less than its fullest powers. In any event, there is a reasonable basis for thus limiting the regulation. A royalty rate fixed with regard to peacetime uses will generally become excessive only where the invention is one whose use is greatly multiplied by the needs of war, and such needs are of course met by government production and procurement.

bidding gold payments. *Norman* v. *B. & O. R. R. Co.*, 294 U. S. 240. Rental contracts are subject to subsequent alteration of their terms. *Block* v. *Hirsh*, 256 U. S. 135; *Marcus Brown Co.* v. *Feldman*, 256 U. S. 170; *Bowles* v. *Willingham*, 321 U. S. 503. A private agreement for a lifetime free pass may be nullified by a subsequent statute forbidding such passes. *Louisville & Nashville R. R.* v. *Mottley*, 219 U. S. 467. The Government may prescribe a tariff different from that lawfully agreed upon between shippers and carriers. *New York* v. *United States*, 257 U. S. 591, 601. Other instances are readily to be found.[35] And in the exercise of its war powers, Congress is no more to be fettered by "existing arrangements", than in the exercise of its powers over interstate commerce. Cf. *Sproles* v. *Binford*, 286 U. S. 374, 390–391.

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[35] In the exercise of their police power, the states can compel a modification of existing contracts, public as well as private. *Stone* v. *Mississippi*, 101 U. S. 814; *Butchers' Union Co.* v. *Crescent City Co.*, 111 U. S. 746; *Newton* v. *Commissioners*, 100 U. S. 548; *Beer Co.* v. *Massachusetts*, 97 U. S. 25; *Illinois Central R. R.* v. *Illinois*, 146 U. S. 387; *Chicago & A. R. R.* v. *Tranbarger*, 238 U. S. 67. They may modify the terms of mortgages in an economic crisis (*Home Building & Loan Association* v. *Blaisdell*, 290 U. S. 398). The federal war power is at least as broad as the states' police power (*Hamilton* v. *Kentucky Distilleries Co.*, 251 U. S. 146, 156), and under that power the states' authority "is not limited to health, morals, and safety. It extends to economic needs as well." *Veix* v. *Sixth Ward Building & Loan Association* 310 U. S. 32, 38–39.

2. *The Act may properly apply to royalties accruing prior to its passage*

As discussed earlier (pp. 37–42), the Act was intended to apply, *inter alia*, to royalties which had accrued prior to the Act, but which had not been paid to the licensor before the Government gave notice that such royalties were excessive. There can be no question of the power of Congress to reduce such royalties to a fair and just amount in so far as they are chargeable to the United States. Congress may, "consistently with the Fifth Amendment, impose for a permitted purpose, restrictions upon property," even though this "results in serious depreciation of property values." *Calhoun* v. *Massie*, 253 U. S. 170, 175. Such depreciation does not constitute a taking in the constitutional sense, and this is true even if the effect of the regulation is to deprive property of all or substantially all its value. *Mugler* v. *Kansas*, 123 U. S. 623, 664, 668–669; *Omnia Co.* v. *United States*, 261 U. S. 502; cf. *North American Co.* v. *Securities and Exchange Commission*, 133 F. 2d 148, 154 (C. C. A. 2), certiorari granted, 318 U. S. 750, pending on special calendar, No. 1, this Term.

The vulnerability of accrued royalties to subsequent Federal legislation enacted in a sphere of Federal power is merely an application of these principles. Since private contract rights must give way to later acts of Congress, any rights

which may have accrued under such contracts must likewise yield. This is readily apparent from decisions of this Court in analogous situations.

In *Calhoun* v. *Massie*, 253 U. S. 170, Calhoun, an attorney, entered into a contract to perform legal services in the prosecution of certain Civil War claims against the United States. After Calhoun had performed substantially all of the services required by that contract, becoming entitled to the stipulated fees, Congress passed an Act making an appropriation for these as well as other claims arising out of the Civil War and specifically limiting attorneys' fees to 20% of the amount of any claim, which was less than the stipulated fees already earned by Calhoun. Calhoun brought suit contending "that if the act is construed as limiting the amount recoverable from a claimant upon his personal obligation, it is void as applied to contracts in existence at the time of its passage" (at 175). This Court rejected the contention and held that the limitation could validly apply to contracts entered into and even partially performed before the Act was passed. Mr. Justice Brandeis stated (at 173):

> For nearly three-quarters of a century Congress has undertaken to control in some measure the conditions under which claims against the Government may be prosecuted. * * *

(at 175):

> An appropriate exercise by a State of its police power is consistent with the Fourteenth Amendment, although it results in serious depreciation of property values; and the United States may, consistently with the Fifth Amendment, impose for a permitted purpose, restrictions upon property which produce like results. * * * The sovereign right of the Government is not less because the property affected happens to be a contract.

Since the objective of the Royalty Adjustment Act—the procurement of needed war materials from patent licensees without paying exhorbitant royalties—is clearly a "permitted purpose," the resulting "depreciation of property values" does not render the Act unconstitutional.

Another analogy is to be found in *Norman* v. *Baltimore & Ohio R. R.*, 294 U. S. 240, which involved an Act of Congress invalidating, as against public policy, stipulations in bonds or other indebtedness calling for payment in gold or gold coin of a given standard of weight and fineness. The statute in question provided that such stipulations should be dischargeable by payment, dollar for dollar, in any coin or currency which at the time of payment is legal tender (Joint Resolution of June 5, 1933). A subsequent statute (Gold Reserve Act of 1934) then lowered the gold content of the dollar by about 40%. This Court recognized that such legisla-

tion rendered gold-clause bonds less valuable in terms of gold dollars, but ruled that the application of the Act of Congress to existing contracts could not be prevented merely because "the legislation may cause hardship or loss" (at 307). Such agreements, the Court stated, "must necessarily be regarded as having been made subject to the possibility that, at some future time, the Congress 'might so exert its whole constitutional power as to render the agreement unenforceable or to impair its value'" (at 309). And because it was not shown "that the Congress arbitrarily or capriciously decided" that these gold clauses interfered with the exertion of the Congressional power over the monetary system, Congress could properly remove the interference by invalidating the clauses (at 316).

Likewise, in *Philadelphia, B. & W. R. R. Co.* v. *Schubert*, 224 U. S. 603, this Court upheld the power of Congress, exercised in the Employers' Liability Acts, to abrogate existing contracts which made receipt of benefits by an employee under a company relief plan a bar to an action for damages against the employer. Holding that an employee who contributed to such a fund before passage of the Act, and who received a benefit therefrom after the Act became effective, was not barred by the agreement from bringing an action for damages, this Court said (at 613–614):

> The power of Congress in its regulation of interstate commerce, * * * to im-

> pose this liability, was not fettered by the necessity of maintaining existing arrangements and stipulations which would conflict with the execution of its policy. To subordinate the exercise of the Federal authority to the continuing operation of previous contracts, would be to place, to this extent, the regulation of interstate commerce in the hands of private individuals and to withdraw from the control of Congress so much of the field as they might choose by prophetic discernment to bring within the range of their agreements. The Constitution recognizes no such limitation. * * * Prior arrangements were necessarily subject to this paramount authority.

It will be noted that in all of the cases discussed above, rights under a preexisting contract had vested prior to the establishment of the regulation under attack: In the *Norman* case, the right of a bondholder to receive payment of interest or principal in gold coin or its equivalent, as agreed; in the *Calhoun* case, the right of an attorney to receive payment at stipulated rates for legal services rendered; in the *Schubert* case, an employer's contractual right to be immune from suit by an employee. Yet in all of these cases, the subject matter of the rights being within the power of Congress, this Court upheld the validity of legislation cancelling or reducing the value of those vested rights.

The same principles apply here. The right of a licensor to royalties for the use of his patented

invention derives from a grant under Congressional authority; the use of his invention by Government contractors in connection with war production relates directly to the war effort. Consequently, private contracts stipulating for patent royalties on account of such war use of the invention are peculiarly within the area of federal power and subject to its operation. Whatever the value of petitioner's license rights against respondent when the Act was passed, and whatever the extent to which those rights had "accrued," Congress saw fit, in the exercise of its Constitutional powers, to decline to pay excessive royalty charges and instead to place the cost of licensed war production for the Government on the same footing as unlicensed production. This policy Congress chose to apply to all unpaid royalties chargeable to the Government, whether they accrued before or after the Act. The reduction, if any, in the value of the licensor's right under his license agreement as a result of this legislation no more invalidates it than did the reduction in the value of the accrued contractual rights in the cases mentioned above.

B. THE ACT SATISFIES THE "DUE PROCESS" REQUIREMENTS APPLICABLE TO PRICE-FIXING LEGISLATION

The Royalty Adjustment Act meets the due process requirement of a fair hearing in the same manner which this Court found to be sufficient in the Price Control Act, that is, by providing for

judicial review of the action taken by the administrative official. Indeed, in this respect the Royalty Adjustment Act is more favorable to the property owner than the Price Control Act. Judicial review under the Price Control Act is limited to determining whether the regulation is "not in accordance with law, or is arbitrary or capricious" (Sec. 204 (b); 50 U. S. C. App., Supp. III, § 924 (b)). This means that a price or rent regulation which complies with the statutory requirements, and is not arbitrary or capricious, is valid even though the individual property owner may obtain less than a "fair return on his property." *Bowles* v. *Willingham*, 321 U. S. 503, 516–519. The regulation may not be set aside merely because the court considers some other price or rent level to be more "fair and equitable" than that selected by the Administrator. Under the Royalty Adjustment Act, on the other hand, the patent owner is given the right to a judicial determination of whether the royalty rate prescribed in the order gives him "fair and just compensation"; and if the court should differ on this point with the executive agency which had issued the order, the United States stands liable for the difference. This additional right to sue the United States is not constitutionally required to accompany an exercise of Congressional regulation. Cf. *Bowles* v. *Willingham*, 321 U. S. 503; *Yakus* v. *United States*, 321 U. S. 414.

It is likewise clear that the Royalty Adjustment Act contains adequate criteria to guide the executive and judicial authorities. A rate statute may validly require that the rate fixed by governmental order be "just and reasonable" as applied to particular persons or companies. Cf., *Federal Power Commission* v. *Hope Natural Gas Co.*, 320 U. S. 591; see also *Bowles* v. *Willingham, supra*, at 516–519. The Royalty Adjustment Act readily meets this test by requiring that the royalty rate fixed in the order be "fair and just" for the particular patent owner, "taking into account the conditions of wartime production" (Sec. 1).

Moreover, the courts may allow an additional recovery against the United States, if necessary to make the total compensation to the patent owner "fair and just" (Sec. 2). This feature alone would be an adequate standard for administrative regulation. In *Levy Leasing Co.* v. *Siegel*, 258 U. S. 242, this Court upheld, as a valid exercise of the state's police power, a New York statute which limited the recovery of a landlord against his hold-over tenant to a "reasonable rental, to be determined by the courts." This Court ruled that such a standard was "sufficiently definite to satisfy the Constitution" (258 U. S. at 250).

III

The Royalty Adjustment Act Was Properly Applied in This Case

The Royalty Adjustment Act applies only to "royalties directly or indirectly charged or chargeable to the United States" (Sec. 7.). The Royalty Adjustment Order No. W–3 issued under the Act was plainly restricted to such royalties (R. 93–96). Petitioner now contends (Br. 77–83) that the royalties accruing on all but two types of transfer cases were not "charged or chargeable" to the Government by respondent;[36] that the Government's direction to respondent not to pay such royalties to petitioner results in unjustly enriching respondent at petitioner's expense, without any benefit to the Government or the public; and that, in any event, the Act is defective in not requiring an investigation and hearing to determine whether a contemplated royalty adjustment

[36] The transfer cases which petitioner contends were not covered by royalties chargeable to the Government included all transfer cases which the district court held not to fall within the license agreement (Par. 5 of judgment), as to which petitioner appealed to the court below. They also included all but two types of transfer cases which the district court held to fall within the license agreement (Par. 4 of judgment), as to which respondent did not appeal (R. 49–51).

order would cover royalties chargeable to the Government.[87]

These contentions are based upon a factual error, but in any event are irrelevant to the central point in this case—the validity of the Royalty Adjustment Act and the Order issued thereunder. As we will show herein, all the royalties involved in the instant suit have been charged or will be charged by respondent to the United States, except in so far as such royalties are refunded to the United States in reductions in the contract price pursuant to the Royalty Adjustment Order. But even assuming that some or most of the royalties in question are not chargeable and have not been charged to the United States, the record definitely shows that some royalties involved in the appeal were so charged or chargeable; both parties apparently agreed that this was so; petitioner first challenged the constitutionality of the Royalty Adjustment Act in the court below when it was set up by respondent as a ground for dismissing the appeal; and even now petitioner concedes that "the consti-

[87] Petitioner also contends that certain royalties which were collected by respondent from the Government, but not paid to petitioner prior to the date of the notice (December 30, 1942), are not required by the Order to be returned to the Government (Br. 78). This misreading of the Order is more fully discussed, *supra*, pp. 56–57.

tutionality of the law is placed squarely before this Court" (Pet. Br. 23). Since there is plainly some application of the Act and Order to the subject matter of the appeal before the court below, which dismissed the appeal on the ground that the Act and Order had rendered it moot, the question of the validity of the Act was properly presented below and is properly before this Court.

The disposition of the matter by the court below would indeed prevent any prejudice to petitioner, whether or not all the royalties in suit were charged or chargeable to the United States. To the extent that any transfer cases were made or sold by respondent for nongovernmental purposes, and to the extent that royalties on transfer cases sold for governmental purposes were not charged and are not chargeable to the United States, the Royalty Adjustment Order is inapplicable and the order of the court below leaves the district court free to proceed with the suit as to all such royalties. That court may conduct an accounting as to any nonchargeable royalties falling under Paragraph 4 of the judgment (which held certain transfer cases to be covered by the license), and determine whether any nonchargeable royalties were included under Paragraph 5 of the judgment (which held the remaining transfer cases to be outside the license). If any transfer cases subject to nonchargeable royalties are found to be involved under Paragraph 5, the validity of the district court's decision on the

merits may then properly come before the circuit court of appeals for review.

The chargeability of at least some of the royalties involved is best to be seen from a chronological resume of the proceedings in the War Department and in this suit. Some of the relevant material is not in the record, since in the court below, where the Royalty Adjustment Order was first asserted as a ground for dismissal of the appeal, petitioner did not question the application of the Order to all the royalties involved until after the decision was handed down. The point was first raised by petitioner in its petition for rehearing (R. 122–129), and respondent's reply to this petition denied that all the royalties involved were not chargeable to the Government.[38] Consequently, there are set forth in Appendix C to this brief (*infra*, pp. 100–107) the documents which, together with material in the record, show the concurrence by both the respondent and the War Department in the view that royalties payable to petitioner on any of the transfer cases involved in this suit have been or will be passed on to the United States.

A. ALL THE ROYALTIES INVOLVED IN SUIT WERE CHARGED OR CHARGEABLE TO THE UNITED STATES

On December 12, 1942, after the Royalty Adjustment Act had become law, and after the

[38] This reply is not in the record, but a copy can be furnished to the Court on request.

district court had held the license applicable to some and inapplicable to other transfer cases, the Patent Branch of the Detroit Ordnance District, War Department, recommended to the Office of the Chief of Ordnance that the Act be invoked "to eliminate, in the purchase of transfer cases, the payment of any royalty" under the license agreement between petitioner and respondent, because the underlying patent was believed to be invalid. The memorandum recommending such action stated:

> 4. The Government has been by far the largest user of vehicles equipped with transfer cases, over * * * vehicles having been purchased from and delivered by various manufacturers during the period beginning July 1, 1939, and terminating November 30, 1942, for which vehicles The Timken-Detroit Axle Company and other manufacturers as sub-contractors, supplied transfer cases; the price of each case supplied by The Timken-Detroit Axle Company including as one item a charge of Fifty Cents ($0.50) royalty.
>
> 5. The Timken-Detroit Axle Company, despite this collection of royalty charges from the Government, has, however, consistently refused to pay Alma Motor Company royalty upon any except a very few of such transfer cases on the ground that those claims of the Ruggles and Smith Patent which are readable upon the remaining transfer cases are not valid. (Appendix C, p. 103, *infra.*)

On December 23, 1942, the Detroit Ordnance District again wrote the Chief of Ordnance, stating that:

> * * * Mr. J. E. Gallagher of the Patent Department of the Timken Company reports that the number of cases which come within the scope of the Ruggles and Smith Patent according to Judge Kirkpatrick's decision exceeded * * * units. On these units we have, it is understood, paid a royalty charge of fifty-cents (50¢) per unit. The number of transfer cases which do not come within the scope of the Ruggles and Smith Patent under Judge Kirkpatrick's decision is, it is believed, substantially more than * * * units on which we have also paid a royalty charge of fifty-cents (50¢) per unit. Assuming that under the notice in compliance with PR 1112 13 the Government is able to recapture the amount paid by royalty, it would be able to recapture considerably more than * * * even if it be only the amount paid on transfer units which do not come within the scope of the Ruggles and Smith Patent. (Appendix C, pp. 105–106, *infra.*)

Responding to the first recommendation, the Chief of Ordnance issued the notice of December 30, 1942 (R. 106–107), notifying petitioner and respondent "that the royalties now being paid by the United States" under the license agreement in question "are believed to be unreasonable or excessive"; and that until the issuance of a Royalty

Adjustment order "no royalties are to be paid on account of the manufacture, use, sale or other disposition for the United States." The notice further stated that:

> * * * the United States reserves the right to assert a claim to accumulated royalties as to which the licensee, for the purpose of awaiting the outcome of pending litigation, has been withholding payment under the license agreement. (R. 107.)

The fund referred to in the notice was, according to a recent letter from respondent, set up "to take care of any possible judgment" in the litigation between petitioner and respondent. That letter states, in part:

> This reserve fund was set up as a business expense and has been reported as accrued liabilities in renegotiation. Renegotiation has been completed for 1942 and 1943 and the Renegotiation Board has allowed this accumulated fund as a cost or expense of doing business. (Letter of October 6, 1944, from the Treasurer of respondent to the Department of Justice, Appendix C, p. 100, *infra*.)[39]

During the proceeding of February 8, 1943, at which both respondent and petitioner were afforded

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[39] This letter also stated that "It has been the general practice of Timken to add royalties it must pay to others to the sales prices charged to customers and, until the royalty adjustment order W-3 was issued, this practice was followed on all transfer cases on which we had been advised by our counsel to pay royalties to Alma."

an opportunity to present evidence and materials bearing on the issuance of a royalty adjustment order, counsel for respondent asserted (R. 68) that royalties "were never charged on * * * the T–79" transfer cases (one of the types of transfer cases which the district court held to be excluded from the license, R. 49–50). Lt. Colonel Herrstrom, representing the War Department, then asked:

> The notice which was served included a reservation to the effect that the Government might, at some later date, seek to reach the royalties which had been accumulated in the hands of the Timken-Detroit Company and which have not yet been paid. What attitude did the company take in respect to any reservation? (R. 68).

Counsel for respondent replied:

> *That the Government is entitled to it. The royalties were charged.* The company was collecting them for the people who were entitled to them, and if the Government has paid them, it is entitled to those royalties back. (R. 68.) [Italics supplied.]

The "people who were entitled to them" were obviously either petitioner or respondent, depending on the outcome of the pending litigation; or the United States, if they were covered by the Royalty Adjustment Order. Counsel for petitioner, who was also present at this proceeding,

did not question the asserted chargeability of these royalties to the United States.[40]

Both respondent and the United States treated the reserve for royalties claimed by petitioner as a potential liability of respondent either to petitioner or to the United States, thus acknowledging that the cost had been charged to the United States.[41]

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[40] Petitioner relies upon an affidavit of August 17, 1943, by Mr. John E. Gallagher, chief of respondent's patent department (R. 60–61), submitted to the court below with respondent's motion to dismiss the appeal. The affidavit stated that "royalties have been charged [to the United States] only on T–43–P–1 and T–43–V–1 transfer cases"—which the district court had held covered by the license (R. 49–50). Mr. Gallagher was present at the proceedings before the War Department (R. 61), and made no effort to correct the statement of respondent's counsel quoted above, which was inconsistent with the affidavit.

[41] Respondent's "reserve fund," set up in 1939, had been asserted by it as a part of its cost of production, in renegotiation proceedings for the fiscal years 1942 and 1943. The Renegotiation Board of the Ordnance Department, War Department, in accordance with respondent's request, charged this fund as an item of cost against respondent's renegotiable business for the purpose of computing the overall profits to be allowed respondent on government business for those years. (See letter from respondent, Appendix C, p. 100, *infra*.) Since in computing overall profits in renegotiation, only those items of cost are allowed which are directly or indirectly chargeable to the procurement contracts of the Government, or of its contractors or subcontractors (see Renegotiation Act of 1943, § 403 (a) (B), as amended by the Revenue Act of 1943 (Public Law 235, 78th Cong., 2d sess.); Renegotiation Regulations, §§ 385–1, 388.1(6), the action of the Renegotiation Board was in effect an acknowledgment that the royalties represented by the reserve fund were chargeable to the United States.

On February 27, 1943, petitioner appealed to the court below from paragraph 5 of the district court's judgment, holding certain transfer cases outside the license (R. 51). On July 28, 1943, the War Department issued Royalty Adjustment Order W-3, directing respondent to pay no royalties to petitioner under the license agreement, and to return to the United States any royalties already collected by respondent but as yet unpaid to petitioner (including the royalties in the "reserve fund" which respondent had set up to await the outcome of its pending litigation with petitioner) (R. 93–96).[42]

In all the proceedings below up to the decision on the appeal, the assumption was uniformly made by all three parties—and by the court below—that all of the royalties involved in this suit were "charged or chargeable directly or indirectly to the United States" (Sec. 7 of the Act). After the Royalty Adjustment Order was issued, respondent moved to dismiss the appeal for mootness, alleging that it "has manufactured and sold transfer cases" under the license agreement "only to or for the use of the War Department," and that petitioner's *sole remedy* was in the Court of Claims under Section 2 of the Royalty Adjustment Act (R. 53–55). Taking as

[42] The War Department is presently contemplating taking steps for the recapture of that fund under the Royalty Adjustment Order. See War Department letter dated December 18, 1944, Appendix C, p. 101, *infra*.

factually correct the averment in respondent's supporting affidavit that all the transfer cases involved in suit were manufactured for the United States (R. 60), and assuming, as did respondent, that the royalties due upon such cases were or would be passed on to the United States, the Government filed a brief *amicus curiae*, suggesting that by virtue of the Royalty Adjustment Order an "actual controversy" no longer existed between the litigants because any royalties due petitioner were required to be paid to the United States, petitioner's remedy being a suit for compensation from the United States. The brief further suggested that the court either dismiss the appeal or suspend action thereon until an actual controversy exists between the parties (see R. 96–97).

Petitioner did not question the applicability of Royalty Adjustment Order No. W–3 to all the royalties involved in the suit, but instead filed a "Petition to Review and Vacate" the order on the ground that both it and the Act were unconstitutional (R. 98–103). That petition stated that the "obligation" of the court below "to review said Order and pass upon its constitutionality seems clearly to be inescapable" (R. 101). Upon certification by the court below that the constitutionality of an act of Congress had been challenged, the United States intervened under the Act of August 24, 1937 (28 U. S. C. § 401), for the purpose of upholding the constitutionality of the Act and Order (R. 110, 113).

On August 7, 1944, the court below rendered its decision holding the Act and Order valid (R. 112–120), dismissing the "Petition to Review and Vacate Royalty Adjustment Order No. W–3" for want of jurisdiction (R. 111–112, 119) and providing that paragraph 5 of the district court's judgment, which held certain transfer cases excluded from the license—

> is vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justiciable controversy *again* exists between the parties * * *. (R. 120.) [Italics supplied.]

Petitioner thereupon filed a petition for rehearing on the ground, *inter alia,* that the record in the case indicated that *some* of the royalties involved therein were not "charged" to the United States within the meaning of Section 7 of the Act (R. 122–129).[13] This petition[14] did not urge the

[13] Respondent filed an opposition to this petition, asserting that "the Government is still chargeable with any royalties that this Court or the District Court can properly decree Alma should receive from Timken under the agreement in suit, regardless of whether they have been charged to date" (p. 2); that "The Government is at present subject to being charged any royalty adjudged to be due Alma on open contracts and through renegotiation" (p. 3); and that Timken has not charged to the Government "royalties for any structure it felt did not include the true invention, if any, of" petitioner's patent (p. 4). A copy of this opposition can be furnished to the Court upon request.

[14] The complete petition for rehearing is not in the record, but a copy can be furnished to the Court upon request.

court below to vacate its decision upholding the Act and Order, nor did it urge that the Order was improperly issued; it merely requested the court to modify its disposition of the case so as to permit a hearing of petitioner's appeal on the merits with respect to its right to royalties on all transfer cases sold to Government contractors and subcontractors, the sales prices of which did not include royalties (R. 12).[45]

On October 2, 1944, the court below denied the petition for rehearing (R. 130), but amended its disposition of the case (R. 129–130) by deleting the word "again" from that portion of its opinion which had vacated Paragraph 5 of the District Court's judgment (see p. 85, *supra*).

This deletion, when considered in connection with the petition for rehearing, would seem to be explainable solely as a means of eliminating the inference that a justiciable controversy may not *now* exist. Consequently, if petitioner can show, on the remand to the district court, that royalties on any of the transfer cases covered by Paragraph 5 of the judgment were not "charged or chargeable" to the United States within the contemplation of Section 7 of the Act, petitioner may then have its right to royalties adjudicated on the

[45] Petitioner concedes that the "constitutionality" of the Royalty Adjustment Act is now "squarely before this Court" (Pet. Br. 23).

merits.[46] Indeed, the opinion of the court below expressly stated that its decision upholding the Act and Order does not deprive petitioner "of the benefit of any estoppel secured by the judgment" of the District Court (R. 120).

B: THE DISPOSITION OF THE CASE BY THE COURT BELOW WAS PROPER

Petitioner argues at some length (Pet. Br. 20–30) that the disposition which the court below made of the appeal before it (R. 121) was tantamount to a ruling that the "jurisdiction of the federal courts" can be "ousted" by an order of an administrative board. Such "ouster," petitioner contends, results from (1) failure of the court below to pass upon the merits of its appeal from Paragraph 5 of the district court's judgment, which declared certain transfer cases "not dominated" by petitioner's patent and thus not subject to royalties (Pet. Br. 23–24), and (2) the "direction" to the district court to "vacate," if "it deems such action to be appropriate," those portions of the district court's judgment from which no appeal was taken to the court below (Pet. Br. 24). These contentions are wholly without merit.

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[46] A factual determination by the district court that royalties on any transfer cases in suit covered by Paragraph 5 of the judgment had not been and would not be passed on to the United States would enable the court below to receive the case on the merits.

1. *Paragraph 5 of the district court's judgment*

Prior to respondent's motion to dismiss the appeal in the court below, the only question before that court was whether Paragraph 5 of the district court's judgment had properly held that petitioner was not entitled to royalties on certain of the transfer cases manufactured by respondent. While this question was pending (R. 51), Royalty Adjustment Order W–3 was issued, ordering respondent to pay no royalties whatever to petitioner on *any* transfer cases made or sold for the Government, if such royalties were chargeable to the United States; and to return to the Treasurer of the United States all royalties which had been collected by respondent and which had not been paid to petitioner before December 30, 1942. Such an order constituted a change "in fact and law" properly cognizable by appellate court; and if it was valid, and if it covered the entire subject matter of the appeal, it would render petitioner's appeal an academic matter. Cf. *Watts, Watts & Co.* v. *Unione Austriaca di Navigazione,* 248 U. S. 9, 21. A closely analogous situation occurred in *Crozier* v. *Krupp,* 224 U. S. 290, in which a patent owner had brought a suit to enjoin infringement by a Government officer. While the case was pending in this Court on a writ of certiorari from a decision by the Court of Appeals for the District of Columbia in favor of the plaintiff, Congress enacted the 1910 Act, making the

sole remedy for such infringement a suit in the Court of Claims for compensation. This Court declined to determine the case on the issues raised in the Court of Appeals, but instead decided it on the basis of the intervening Act of Congress (224 U. S. at 302).

Since, so far as appeared to the court below, none of the royalties involved in suit could be paid to petitioner even if the the district court's decision under paragraph 5 of the judgment was erroneous, the refusal of the court below to hear petitioner's appeal on the merits, after having upheld the validity of the Order, was required by the doctrine that the judiciary will not decide moot questions. And, as noted above, the disposition of the case below permits the district court to ascertain whether any royalties on transfer cases under paragraph 5 of the judgment are not covered by the Royalty Adjustment Order, so as to enable the merits of the appeal to be considered in the circuit court.

2. *Paragraph 4 of the district court's judgment*

With apparent reference to Paragraph 4 of the district court's judgment, petitioner asserts that the "action" of the court below "in remanding the case to the District Court with the direction or mandate to the District Court that it should proceed no further in the case was tantamount to a direct ruling" that the Act and Order "had the force and effect of vitiating and rendering nugatory

the judgment of the District Court which had become final" (Pet. Br. 24). This assertion is baseless.

Paragraph 4 of the district court's judgment declared that the license agreement covered certain transfer cases (R. 49–50). No appeal was taken from that decision; hence, Paragraph 4 was not before the court below at the time respondent filed its motion to dismiss the appeal. The order of the court below, vacating Paragraph 5 of the district court's judgment, and remanding "the cause" to the trial court "with directions to proceed no further *therein* unless and until it shall appear * * * that a justiciable controversy exists between the parties arising out of the facts set forth in the complaint," can therefore apply only to Paragraph 5 of the judgment—the only portion of the judgment before the court. This is so whether the term "therein" be read to refer to "Paragraph 5 of the judgment" or to "the cause" which was remanded to the district court. Thus, the order of the court below, as we read it, does not suspend any further proceedings under Paragraph 4 of the judgment. (See reference to the "remainder" of the judgment in the order below, R. 121.) Of course, the district court would not authorize further proceedings unless it was satisfied that such proceedings were not moot.[47]

[47] Even if the order below is read as suspending proceedings under Paragraph 4 until a justiciable controversy was found to exist, the order would not be erroneous, but, to this extent, would be surplusage. The very circumstances which

Nor can there be any valid objection to the option in the district court to dismiss the complaint for mootness. It conceivably might prove inconvenient to the district court to keep the matter pending in a suspended state, especially if all of the transfer cases thus far involved in the litigation were covered by the Royalty Adjust-

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rendered moot the appeal from Paragraph 5 of the judgment rendered moot any issue under Paragraph 4, except in so far as it may have included royalties not covered by the Royalty Adjustment Order. At this time, Paragraph 4 merely adjudged that certain transfer cases were embraced by the license, and authorized an accounting for the amount of royalties due unless this was stipulated by the parties (Par. 6, R. 50–51). Unless Paragraph 4 did cover royalties outside the Royalty Adjustment Order, it would have been meaningless for the district court to proceed to such a determination, for the district court would be as powerless as the court below to decide a nonjusticiable controversy. The order to suspend further proceedings, even as to Paragraph 4, was thus little more than an observation to the district court that its jurisdiction over the case pending before it could be exercised in further proceedings only if a justiciable controversy existed—i. e., only if some of the royalties involved were not covered by the War Department's order.

In any event, there would be no interference with vested rights under a judgment. Since "an accounting was necessary to bring the suit to a conclusion upon the merits," Paragraph 4 of the district court's judgment was not final, and no rights had "vested" thereunder. See *Simmons Co.* v. *Grier Bros. Co.*, 258 U. S. 82, 89; see also, *Marconi Wireless Co.* v. *United States*, 320 U. S. 1, 47. Moreover, the Royalty Adjustment Act became law more than a month before the district court's judgment was entered, thus apprising all concerned that a notice and order might be issued thereunder at any time in respect of all accrued royalties which were unpaid at the time of the notice.

ment Order. While commercial production would presumably commence after the war—or possibly even before that time—such production could be the subject matter of a new complaint. It was no abuse of discretion, therefore, to have permitted the district court, if it found such action appropriate, to dismiss the entire complaint for mootness, leaving the parties free to institute suitable proceedings when a justiciable issue should be presented. Cf. *Crozier* v. *Krupp*, 224 U. S. 290.

CONCLUSION

It is respectfully submitted that the judgment below should be affirmed.

CHARLES FAHY,
Solicitor General.
FRANCIS M. SHEA,
Assistant Attorney General.
DAVID L. KREEGER,
Special Assistant to the Attorney General.
JEROME H. SIMONDS,
Attorney.

APRIL 1945

APPENDIX A

The Royalty Adjustment Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C., Supp. III, §§ 89–96) reads as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, to aid in the successful prosecution of the War, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee. Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided,*

however, That the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation. Such licensee shall not after the effective date of said notice pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective upon receipt or five days after the mailing thereof, whichever date is the earlier.

SEC. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims, or in the District Courts of the United States insofar as such courts may have concurrent

jurisdiction with the Court of Claims, to recover such sum, if any, as when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise.

SEC. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

SEC. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a cor-

responding reduction in the contract price to be paid directly or indirectly for such manufacture, use, sale, or other disposition of such invention, or by way of refund if already paid to the licensee.

SEC. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the delegation of any power and authority conferred by this Act to such qualified and responsible officers, boards, agents, or persons as he may designate or appoint.

SEC. 6. For the purposes of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

SEC. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of the notice provided for in section 1 hereof. This Act

shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided for in section 1 hereof. Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of settling, sustaining, qualifying, or defeating any suit or claim hereunder.

SEC. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this Act. The provisions of section 10 (*l*) of an Act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of an invention, whether patented or unpatented, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said Act shall mean and include an agreement for the payment of royalty, regardless of the date of such agreement, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

SEC. 9. Nothing herein contained shall be deemed to preclude the applicability of Section 403 of Public Law 528, Seventy-seventh Congress, as the same may be heretofore or hereafter amended so far as the same may be applicable.

SEC. 10. If any provision of this Act or the application of any provision to any person or circumstances shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act shall not be affected thereby.

APPENDIX B

The Act of June 25, 1910, as amended by the Act of July 1, 1918 (36 Stat. 851, 40 Stat. 705; 35 U. S. C. § 68) reads as follows:

> Whenever an invention described in and covered by a patent of the United States shall hereafter be used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture: *Provided, however,* That said Court of Claims shall not entertain a suit or award compensation under the provisions of this Act where the claim for compensation is based on the use or manufacture by or for the United States of any article heretofore owned, leased, used by, or in the possession of the United States: *Provided further,* That in any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement, as set forth in Title Sixty of the Revised Statutes, or otherwise.

APPENDIX C

LETTERS AND MEMORANDA

(1)

THE TIMKEN-DETROIT AXLE COMPANY,
GENERAL OFFICES, *100–400 Clark Avenue,*
Detroit 32, Michigan, October 6, 1944.

Hon. FRANCIS M. SHEA,
Assistant Attorney General,
Department of Justice, Washington, D. C.

Attention: Mr. David L. Kreeger.

Re: Timken vs. Alma Motors—No. 8300—
Circuit Court of Appeals for the Third
Circuit.

DEAR SIR: In reply to your request, I am setting forth the accounting practices followed by The Timken-Detroit Axle Company with respect to possible royalties on all transfer cases involved in the appeal in the above-entitled matter.

It has been the general practice of Timken to add royalties it must pay to others to the sales prices charged to customers and, until the royalty adjustment order W–3 was issued, this practice was followed on all transfer cases on which we had been advised by our counsel to pay royalties to Alma.

Because of the contentions made by Alma as to royalties due on cases on which we were advised it was not properly entitled to royalties, in September 1939 we began to set up a reserve fund to take care of any possible judgment in this litigation.

This reserve fund was set up as a business expense and has been reported as accrued liabilities in renegotiation. Renegotiation has been completed for 1942 and 1943 and the Renegotiation Board has allowed this accumulated fund as a cost or expense of doing business.

Yours very truly,

[s] A. I. HAWKINS,
A. I. Hawkins,
Treasurer.

L

(2)

SPOGL
SPOMJ-D

Ely/dg
2579-3015 ff.

18 December 1944

Subject: Timken-Alma Royalty Adjustment Order W-3.

To: Detroit Ordnance District, 1832 National Bank Building, Detroit 32, Michigan.
Attn: Patent Section, Legal Branch.

1. Attached hereto is a photostatic copy of a letter dated 6 October 1944 from the Timken-Detroit Axle Company to the Department of Justice referring to the accounting practice respecting royalties payable to Alma. It appears from such letter that it was the general practice of Timken to add such royalties to the sales price charged customers, until Royalty Adjustment Order W-3 was issued. It further appears that Timken-Detroit Axle Company has a reserve fund to take care of any possible adjustment in this litigation, but in view of the fact that the litigation has been terminated by the Circuit Court of Appeals for the Third Circuit, it is considered that no reserve is necessary.

2. It would further appear that steps should be taken by your office to recapture the reserve which is now no longer necessary.

3. Attached hereto is a photostatic copy of the report of the decision of the Circuit Court of Appeals, Third Circuit, in the above matter; such decision having been reported in 62 USPQ, page 263.

4. It is to be recalled that Mr. I. Joseph Farley is of counsel for Alma, and if necessary, your office can confirm that the Timken-Alma litigation is at an end as far as Government business is concerned.

By order of the Chief of Ordnance:

(S) D. J. CLIFFORD,
Lt. Col., Ord. Dept., Assistant.

2 Incls—
Incl 1—cy memo 11-22-44 w/incl.
Incl 2—cy Decision.

(3)

WAR DEPARTMENT, TANK AND AUTOMOTIVE CENTER,
UNION GUARDIAN BLDG.,
Detroit, Mich., December 12, 1942.

SPOM—Legal Branch
Patent Section

Subject: Public Law #768.

To: Office of the Chief of Ordnance, Pentagon Building, Washington, D. C.

Attention: Legal Branch.

1. It is respectfully requested that, the necessary procedure based upon the provisions of the above Public Law be initiated to eliminate, in the purchase of transfer cases, the payment of any royalty for the use of the features claimed in the Ruggles and Smith Patent #2,173,044, granted September 12, 1939.

2. The above patent is owned by the Alma Motor Company of Alma, Michigan, and under a license agreement between that Company and The Timken-Detroit Axle Company of Detroit, Michigan, dated May 26, 1938, The Timken-Detroit Axle Company was licensed to manufacture and

sell transfer cases embodying the improvements disclosed in the application which matured into said Ruggles and Smith Patent and agreed to make, from and after the date on which such patent issued, royalty payments varying in amounts from Fifty Cents ($0.50) per unit to One Dollar and Fifty Cents ($1.50) per unit depending upon the gross weight of the vehicle in which the unit is to be installed.

* * *

4. The Government has been by far the largest user of vehicles equipped with transfer cases, over * * * vehicles having been purchased from and delivered by various manufacturers during the period beginning July 1, 1939 and terminating November 30, 1942, for which vehicles The Timken-Detroit Axle Company and other manufacturers as sub-contractors, supplied transfer cases; the price of each case supplied by The Timken-Detroit Axle Company including as one item a charge of Fifty Cents ($0.50) royalty.

5. The Timken-Detroit Axle Company, despite this collection of royalty charges from the Government, has, however, consistently refused to pay Alma Motor Company royalty upon any except a very few of such transfer cases on the ground that those claims of the Ruggles and Smith Patent which are readable upon the remaining transfer cases are not valid.

6. This position by The Timken-Detroit Axle Company led to the filing of a suit by The Timken-Detroit Axle Company against the Alma Motor Company in the District Court of the United States, for the District of Delaware, under the Declaratory Judgment Act seeking as relief that the Court hold—

(a) The Ruggles and Smith Patent is invalid,

(b) The Transfer cases in question do not come within the claims of such patent, and

(c) The plaintiff is not bound to pay royalties upon such cases.

Judge Kirkpatrick, before whom the case was tried, has handed down a decision in which the above three requests were treated as follows:

(a) The validity of the Ruggles and Smith Patent was expressly not adjudicated on the ground that the plaintiff as a licensee is estopped to contest validity,

(b) The various transfer cases supplied by plaintiff for Governmental use were divided into two groups, those which do come under the claims of the Ruggles and Smith Patent and those which do not. (The Timken-Detroit Axle Company is the chief source of supply for the transfer cases forming the first group but not for the transfer cases forming the second group) and

(c) Plaintiff is bound to pay royalties upon those transfer cases in the second group which it supplied.

7. One of the primary reasons for the contention of invalidity is that, if there be any invention in the transfer cases disclosed in the Ruggles and Smith Patent, such invention was made not by Ruggles and Smith but by Mr. Robert F. Brown, an engineer in the employ of the U. S. Government.

8. Mr. Brown was, in March, 1933, stationed at Holabird Quartermaster Depot, Baltimore, Maryland and on March 24, 1933, made and signed a drawing of a new transfer case, a print of which drawing is attached. Shortly after this drawing was made Mr. Brown disclosed it to Mr. Petersen of the Brown-Lipe Division of the Spicer Manufacturing Corporation by which a transfer case embodying Mr. Brown's ideas was built and installed in a White truck which was delivered to Holabird Quartermaster Depot in November, 1933.

9. For the reasons set forth in the accompanying opinion it is believed that the Ruggles and Smith Patent is invalid and that the Government should be relieved from the requirement of pay-

ing royalty upon any transfer cases of the type in question, in accordance with the provisions of the above Public Act.

For the Deputy Chief of Ordnance:

D. J. CLIFFORD,
Major, Ord. Dept., Assistant.

1 incl—
Printed dwg., Brown 3/24/33.

NOTE: Matter deleted is irrelevant to this case.

(4)

WAR DEPARTMENT, TANK AND
AUTOMOTIVE CENTER,
UNION GUARDIAN BLDG.,
Detroit, Mich., December 23, 1942.

SPOM—Legal Branch
Patent Section

Subject: Timken-Detroit Axle Company vs Alma Motors

To: Office, Chief of Ordnance SPOGL, Pentagon Building, Washington, D. C.

ATTN: Major Charles E. Herrstrom.

* * *

3. The total number of transfer cases supplied the Government indirectly by the Timken-Detroit Axle Company has not been determined although a request for such information has been made to the Timken Company. Mr. J. E. Gallagher of the Patent Department of the Timken Company reports that the number of cases which come within the scope of the Ruggles and Smith Patent according to Judge Kirkpatrick's decision exceeded * * * units. On these units we have, it is understood, paid a royalty charge of fifty-cents (50¢) per unit. The number of transfer cases which do not come within the scope of the Ruggles and Smith Patent under Judge Kirkpatrick's decision is, it is believed, substantially more than * * * units on which we have also paid

a royalty charge of fifty-cents (50¢) per unit. Assuming that under the notice in compliance with PR.1112.13 the Government is able to recapture the amount paid by royalty, it would be able to recapture considerably more than * * * even if it be only the amount paid on transfer units which do not come within the scope of the Ruggles and Smith Patent.

* * *

For the Deputy Chief of Ordnance:

Signed C. S. WALKER,
Chief, Patent Section.
J. J. CLIFFORD,
Major, Ord. Dept., Assistant.

2 Incls—
Incl 1—Cpy of Contract #W-398-qm-12331.
Incl 2—Cpy of Patent Assignment.

NOTE: Matter deleted is irrelevant to this case.

(5)

WAR DEPARTMENT,
OFFICE OF THE UNDER SECRETARY,
Washington, D. C., 11 April 1945.

Honorable FRANCIS M. SHEA,
Assistant Attorney General,
Department of Justice,
Washington 25, D. C.

Re: *Alma Motor Company* v. *The Timken-Detroit Axle Company, United States, Intervenor,* No. 806, United States Supreme Court, October Term 1944.

MY DEAR MR. SHEA: Reference is made to your letter of April 10, 1945, inquiring as to the monetary savings to the Government which may have resulted from royalty adjustment orders and royalty adjustment agreements made by the War and Navy Departments pursuant to the Royalty Adjustment Act of October 31, 1942 (56 Stat. 1013; 35 U. S. C. '89-96). Up to March 31, 1945, it is estimated that more than $128,000,000 has been

saved to the War and Navy Departments as a result of orders and agreements made pursuant to this Act. This represents both actual cash refunds from the licensees and licensors, insofar as excessive royalties had been collected from or charged to the United States, and reductions in the contract price of subsequent Government procurement, insofar as the royalties had not yet been passed on to the United States. In some cases, contract prices are not reduced, but the benefit of reduction in royalties is secured by a continuing refund to the Government.

The actual savings realized by the War and Navy Departments are, however, substantially in excess of the above figure. In a great number of instances in which compromises or settlements are made with patent owners under the Royalty Adjustment Act, reducing royalties charged or chargeable to the United States, the patent owner, as part of the settlement, releases all claims against the United States for past and future infringement under the Act of June 25, 1910 as amended (35 U. S. C. 68). The monetary savings effected by the release of such claims has been included in the above figure only to the extent that contractors have refunded to the Government reserves set up by them to pay liabilities released as above described. There is no doubt that the additional savings from the release of claims is substantial.

These savings are, of course, subject to reduction by the amounts which the patent owners in question may recover as "fair and just compensation" under Section 2 of the Act, in respect of royalty adjustment orders issued to date.

Sincerely,

(S) ROBERT P. PATTERSON,
Under Secretary of War.

(S) H. STRUVE HENSEL,
Assistant Secretary of the Navy.

U. S. GOVERNMENT PRINTING OFFICE: 1945

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